
GREEN MOUNTAIN'S KEURIG K-CUPS STILL KICKING

(GMCR, SBUX, KFT, SJM)

Reverdy Johnson, rj@blueshiftideas.com 415.364.3782
with additional research by Belinda Robinson and Marie Monbureau

Research Question:

Will Green Mountain's K-Cups see a drop in sales and usage?

FINDINGS AND RESEARCH



INITIAL FINDINGS

Blueshift Research's two previous reports stated that Green Mountain Coffee Roasters Inc. (GMCR) would withstand competition from Starbucks Corp.'s (SBUX) Via instant coffee (Oct. 30, 2009) and continue to dominate the single-cup coffee machine market (Jan. 8, 2010) despite a rise in competition.

CURRENT RESEARCH

In this third study, Blueshift assessed whether profit-bearing K-Cup sales were threatened by the introduction of the My K-Cup reusable filter, the rise in less expensive brewers, and potentially declining usage as Keurig's novelty wears off. Blueshift employed its pattern mining approach to establish and interview sources in six independent silos: 1) Keurig machine owners, 2) retail store checks, 3) online stores, 4) K-Cup suppliers, 5) experts and 6) secondary sources.

Blueshift interviewed 34 primary sources, including five repeat sources among suppliers and experts, and included seven of the most relevant secondary sources focused on consumers' K-Cup discussions and criticism of the K-Cup filter.

SUMMARY OF FINDINGS

- ▶ **K-Cup sales have risen or held steady, and are expected to follow this pattern during the next six to 12 months at least. The five sources who reported buying fewer K-Cups cited the reusable filter as a reason, but the filter has not greatly affected K-Cup usage.**
- ▶ **Variety is important to K-Cup demand. Retail stores said increased variety in their inventory boosted sales. Online stores and K-Cup suppliers said more available flavors and roasts are an integral piece of their business and a differentiator for Green Mountain. Recently announced K-Cup offerings from The J.M. Smucker Co.'s (SJM) Folgers and Millstone are expected to be well received in some circles.**
- ▶ **Keurig machine sales also are increasing. Online coffee stores reported reduced inventory for 2010 as Keurig fills retail store orders first. Kraft Foods Inc.'s (KFT) Tassimo is the second most popular single-serving coffee machine though only distantly.**

	K-Cup Sales Steady or Increasing	Reusable Filter Gaining Popularity	Keurig Machines Maintaining Popularity
Keurig Owners	↑	→	↑
Retail Stores	↑	→	↑
Online Stores	↑	↓	↑
K-Cup Suppliers	↑	↓	↑
Experts	↑	↓	↑

SILOS



Keurig machine owners

Ten of these 15 sources said their K-Cup consumption had remained the same or increased, while five were buying fewer K-Cups, often using the reusable filter as an alternative. Those who maintain their K-Cup usage are not using the filter, opting instead for the convenience of the prepackaged coffee. Nearly all sources were happy with their Keurig machine, have no interest in purchasing an additional or alternative single-serve machine, and said it makes coffee fast enough for their needs. One-fourth of sources said new flavors are always intriguing and that they would be interested in trying K-Cups from Folgers or Millstone, which will be released later this year.

- ▶ A male in his 20s is buying more K-Cups year to year and does not use the filter.
 - “I am buying a box more of K-Cups every month compared to last year.”
 - “I use it more now than I did a year ago, an average of four or five times a week.”
 - “I have never used the filter. I love the regular cups, and the mess of dealing with the grinds is really not worth the hassle to me.”
 - “I used to go to Starbucks at least four times a week. Now I go maybe once a month.”
- I am buying a box more of K-Cups every month compared to last year. ... I have never used the filter. I love the regular cups, and the mess of dealing with the grinds is really not worth the hassle to me.*

Keurig Customer
- ▶ This man has increased his K-Cup consumption since purchasing his machine and does not plan to deviate from his current pattern.
 - “I’m buying more K-Cups than before. I use the machine at least once a day. On weekends, I normally go for two.”
 - “I own the filter but never use it. Convenience is the key.”
 - ▶ A 59-year-old male in San Jose bought the Keurig single-serve machine three months ago and has consistently brewed five or six K-Cups a week.
 - “My use has been pretty constant since I bought the machine, and I do not plan on changing my K-Cup consumption in the future.”
 - “The Keurig is simpler to use, and the other ones seem to be messier.”

- “I used to get coffee out every day, and now I do it one or two days a week.”
 - “It used to be very difficult to find K-Cups. Now I find them more available in stores like [Linens Holding Co.’s] Linens ’n Things or Bed Bath & Beyond Inc. [BBBY].”
- ▶ A Keurig owner is buying fewer K-Cups and increasing his consumption of Starbucks ground coffee and his use of the My K-Cup filter in the last year.
- “One significant change is the amount of usage my reusable filter has gotten over the last year. I now use the K-Cup filter about one-third of the time. Starbucks is my most consistent choice for the filter.”
 - “Machine warm-up is several minutes and brewing about 40 seconds for an 8-ounce drop, both of which are more than speedy enough.”
- “One significant change is the amount of usage my reusable filter has gotten over the last year. I now use the K-Cup filter about one-third of the time. Starbucks is my most consistent choice for the filter.”*
- Keurig Customer*
- ▶ A man in his mid-20s has not changed his K-Cup purchasing pattern and continues to favor K-Cups over other coffee alternatives.
- “I am buying the same amount of K-Cups in the past year. I use it about three to five times per week, which hasn’t changed since I purchased the machine.”
 - “The Keurig machine represents a majority of where I get my coffee now. It eliminates an extra trip to the coffee shop.”
 - “I like variety, so I would probably try new K-Cups from Folgers and/or Millstone.”
- ▶ A 56-year-old homemaker in Texas purchases large amounts of K-Cups and has no plans to use any other brand of coffee bean in the Keurig machine.
- “My purchase of K-Cups has gone up because I’ve gotten all of my friends involved, so now we use it to chat and gossip at my house.”
 - “Over the last year, my usage has increased. Now I use it more than ever.”
 - “I use it every day, sometimes twice a day. I am not sure what I did without it.”
 - “I own a reusable K-Cup filter, but I like buying K-Cups. It’s part of the fun of using the machine.”
- “My purchase of K-Cups has gone up. ... Over the last year, my usage has increased. Now I use it more than ever. ... I am not sure what I did without it.”*
- Keurig Customer*
- ▶ A 50-year-old woman said her K-Cup purchases have not changed and she remains loyal to Keurig.
- “I use the Keurig Machine about three to four times a week and haven’t changed my pattern in buying. I order once a month.”
 - “I have a K-Cup filter but do not use other beans.”
 - “I have definitely slowed down on my outside coffee purchases. I can get a box of K-Cups for the price of four to five cups at Starbucks.”
 - “I would buy Folgers and Millstone K-Cups if the prices are right.”
- ▶ A Keurig owner said his K-Cup consumption has increased in the last two months and said the filter brews a weak cup of coffee.
- “I’m back to using the Keurig once a day for coffee and one to two times for tea.”

- “My K-Cup usage at home has spiked in the last two months as I’ve grown tired of cleaning my French press pot all the time.”
 - “I was buying one or two 18-count boxes a month. I have since reverted to buying six 24-count boxes at a time online.”
 - “I own the filter and use it mostly for home-roasted beans. I wish they offered a bigger filter so I could fit more coffee inside. I get a weaker cup than I’d prefer.”
 - “The option of Starbucks in the Tassimo format is tempting, but I’m sticking with the Keurig. In fact, I’m getting ready to buy a new Keurig machine.”
- ▶ A Keurig owner said his K-Cup consumption has dropped in half as he prefers other single-serving brands to Keurig. He does not use his reusable filter regularly.
- “I have purchased way less K-Cups in the past year.”
 - “It’s fast enough; I just think others are far superior to the Keurig.”
 - “I have a reusable filter but only use it when I have busted pods.”
- ▶ A 42-year-old female in New Jersey has used K-Cups three times a day for the past year. She does not use the filter and would purchase another Keurig if hers needed to be replaced. She buys coffee at Starbucks and Dunkin’ Brands Inc.’s Dunkin’ Donuts less frequently.
- “Ordering the cups online is more economical than buying them in the store, and they are shipped quickly and we have never had any problems with it.”
 - “We love this machine-the quality, convenience and cost of the coffee can’t be beat.”
 - “We have never used our reusable filter. Having to measure and fill and then clean up would make a lot more work than just popping in a K-Cup.”
- We have never used our reusable filter. Having to measure and fill and then clean up would make a lot more work than just popping in a K-Cup.***
- Keurig Customer*
- ▶ A 44-year-old man, who received his machine as a gift, has not experienced any changes in his K-Cups purchase patterns.
- “I purchase the same quantity as pretty much all the time.”
 - “I use my Keurig between five and 10 times a week.”
 - “I only use K-Cups. Why mess with the convenience?”
- ▶ A 36-year-old in New York who received the Keurig machine as a gift last year now uses the machine only on weekends after initially using it daily. He is buying fewer K-Cups as a result and visits Starbucks more frequently during the week.
- “At first, I would reorder K-Cups each month. Now we order less. For the sake of convenience, I have gone back to grabbing a coffee on the run during the week.”
 - “The fact that it was a gift means I didn’t really want it. I used it a lot [at first], but that has slowed right down.”
- ▶ A 57-year-old woman has decreased her K-Cup purchases dramatically in the past year. She purchased the reusable filter and now only uses the disposable K-Cups for company.
- “I fill the filter with my own coffee, and it only takes a minute or two to brew it.”
 - “The coffee I use with the filter costs less, and the flavor is comparable to the K-Cups.”
 - “I buy much less coffee from Starbucks now that I have a Keurig.”
- ▶ A man in his 30s is loyal to Keurig and K-Cups, drinking the same amount as he when he first got the machine months ago.

- “I have only owned for five months, but I bought a huge inventory in early months and am still using that inventory now. I use it every day, at least two to three times.”
 - “I have two K-Cup filters and have used it with Starbucks and Peet’s [Coffee & Tea Inc./PEET]. It is not as convenient as K-Cups and seems as though it’s not as strong.”
- ▶ A Keurig owner no longer uses K-Cups because of a lack of variety, instead opting for the Grindmaster Corp. OPOD and occasionally using the My K-Cup filter with his Keurig machine.
- “It has been several years since I bought any K-Cups. The coffees were simply not interesting.”
 - “I use the K-Cup filters with ground coffee.”



Retail Store Checks

Six of eight store associates said K-Cup and Keurig machine sales are on the rise or at least have remained the same. Various stores reported having a greater inventory and variety of K-Cups, which customers appreciate. Filter sales are mixed; three stores reported an increase while three others reported negligible demand. Tassimo was noted as the most common competition to the Keurig machine, but it was a distant second in terms of sales.

- ▶ A Wal-Mart Stores Inc. (WMT) sales associate in central New Jersey said K-Cup sales are up from last year and need to be restocked daily. They are more popular than the filters. Machine sales also have increased and presently are sold out and will be restocked next week.
- “Almost everyone goes for the K-Cups when they buy the coffeemaker. Not many buy the reusable cup.”
 - “These coffeemakers have some loyal fans.”
- ▶ A sales associate at Kohl’s Corp. (KSS) near Los Angeles reported greater demand for K-Cups than a year ago and said Keurig sales are on the rise.
- “Keurig makers are doing very well here. Sales are up, but I can’t give you specifics.”
 - “We have to reorder K-Cups more frequently than a year ago.”
 - “We don’t seem to sell as many filters as we do the K-Cups.”
- We have to reorder K-Cups more frequently than a year ago. ... We don’t seem to sell as many filters as we do the K-Cups.*
- Kohl’s Sales Associate*
- ▶ A Bed Bath & Beyond sales associate in central New Jersey said K-Cups are a huge seller, but the filters do not attract much attention. Keurig machines are one of the store’s best sellers and the Special Edition B60 for \$139.99 is its best-selling model. Tassimo is the store’s only other single-cup brewer, but it is not nearly as popular as the Keurig.
- “K-Cups need to be restocked daily because what’s on the floor sells so quickly.”
 - “The Tassimo doesn’t sell nearly as well because they don’t offer the variety of coffee that Keurig offers.”
- ▶ A Kohl’s store associate in central New Jersey said K-Cup sales are up since last year and the reusable filter is not very popular. Keurig machines are one of the store’s best-selling small appliances, and the most expensive version currently is out of stock. Machines sell out quicker than K-Cups, but both are restocked very quickly.
- “I have cases of K-Cups in the stock room. It almost never sells out, but we do sell a lot of them.”

- “K-Cups are less expensive than a cup of coffee, so they fit well into our bargain shoppers’ lifestyles.”
 - “The reusable filters are not very popular at all. We sell one reusable filter for every 100 boxes of K-Cups.”
- ▶ A Bed Bath & Beyond kitchen department associate near Los Angeles said Keurig sales are on the rise and customers are loyal to the brand. K-Cup sales are strong, as are sales of the filter since customers like having a choice.
- “Keurig sales are up about 5% from a year ago. We are getting big bulk deliveries of the coffees pretty regularly. Our inventory seems to be consistently revolving.”
 - “Even though the sales of K-Cups are doing well, so are the filters. People like having the options.”
 - “Keurig is such a strong brand, and so many customers who come here for the coffees are loyal to it. I see people sticking with what they know.”
 - “Tassimo is doing pretty well, but not nearly as well as Keurig. They do not offer a filter, which I know Keurig customers love.”
- ▶ A Target Corp. (TGT) sales associate in New York said K-Cups do not sell well despite the popular Keurig machines, for which sales have increased this year.
- “I haven’t seen too many K-Cup boxes sell.”
 - “The Keurig machines sell well and have been selling more recently. People give them great compliments.”
 - “[Jarden Corp.’s/JAH] Mr. Coffee also sells well here because they are lower priced. People are looking lower-priced coffee makers.”
- ▶ A Bloomingdale’s (Macy’s Inc./M) sales associate in San Francisco said Keurig sales are mediocre but K-Cup sales are steady despite the store’s lack of K-Cup variety. Filter sales are also picking up as customers look to use their own grounds in the Keurig machine. Nestlé S.A.’s (VTX:NESN) Nespresso machine is a clear customer favorite. Keurig machines are commonly returned by gift recipients.
- “Keurig sales are fair to middling. I sold two last week.”
 - “When we sell a machine, we sell K-Cups with it. And customers come back to buy more.”
 - “The reusable filters are selling well. I tell customers that the prepackaged K-Cups are great, but if you love your own blend go with the filter. Some people just really love their special blend.”
 - “Coming out with Folgers K-Cups will help a lot so we can carry more flavors.”
 - “We have a lot of returns of Keurig machines. People change their minds or it was a gift. They want a different type of coffee.”
 - “I have more success with Nespresso, definitely. But they cater to a more exclusive customer.”
- ▶ A housewares sales associate in a San Francisco Macy’s said Keurig machines sales are increasing as the coffeemaker has little competition because of the option of reusable filters, which are popular and occasionally sell out.
- “Sales are going up. People like it because they can use the K-Cups or the filter.”
 - “K-Cups are convenient in the morning, but using the filters is cheaper.”
 - “We don’t carry many K-Cups. We only have one tea and a couple of the strongest coffees. A lot of people ask why [the machines] don’t come with more flavors to try.”

- “We are having a sale [on the Keurig machines] tomorrow. The B40 will be \$89 instead of \$129. The Special Edition will be \$139 and the Platinum will be \$169. The K-Cups never go on sale.”



Online Stores

Three of four sources said K-Cup sales have increased in the last year. They also reported backorders on Keurig machines as department stores receive inventory before online distributors. Filters have not been strong online sellers. Sources said Tassimo is Keurig's closest competitor but only at a distant second in terms of sales and demand.

- ▶ The general manager of a single-serve online superstore said K-Cup sales have risen since she started working there seven months ago.

- “Sales are up since last September. We sell more K-Cups than any other item.”
- “There will be a market for Folgers, Millstone and any others who enter in. It is going to be a different customer than the ones we already have.”
- “Older folks may be more interested in the Folgers K-Cups.”
- “People new to single-serves don’t even know that there was anything before K-Cups.”
- “We have a promotion where when you buy a machine, you get a free box of K-Cups and free shipping.”

Sales are up since last September. We sell more K-Cups than any other item.

Manager of Online Coffee Store

- ▶ The president of a coffee shop’s Internet division said K-Cup sales are up 8% to 10% year to year and that they sell their stock of about 120,000 K-Cups in three to four weeks. She also reported a current shortage in Keurig machines.

- “We do not carry the reusable coffee filters, and we haven’t had any requests for them.”
- “Sales of Keurig machines are a little bit down lately due to the lack of supply. Demand is there, but there are shortages.”
- “Keurig is our best-selling single-serve brewer. Tassimo is the biggest competition.”

- ▶ The cofounder of an online, single-serve coffee, tea and hot cocoa company said K-Cup sales have grown every month during the past 2½ years. He also has reported high demand for the reusable filters, which he attributes to Keurig’s mainstream penetration. Online orders of Keurig machines recently have slipped because of backorders. Keurig gives more restocking priority to retail stores than to online retailers. Keurig is by far the leader in single-serve coffee machines, with Tassimo its closest yet distant competitor.

- “During the holidays, reusable filters were a very big seller. Usually we dealt with the wealthier user that didn’t mind the price. People like the convenience but don’t necessarily like the cost of the K-Cups.”
- “If Folgers and Millstone come out at the same price point as the rest of the K-Cups, sales will be lukewarm.”
- “Keurig machine inventory has been rough in 2010. They have been supplying so many different

Keurig machine inventory has been rough in 2010. They have been supplying so many different retailers right now that Internet resellers have become the last to get what is left. ... They’ve only had one model readily available to us in 2010, not the higher-end ones.

Co-founder of Online Coffee Company

- retailers right now that Internet resellers have become the last to get what is left.”
 - “Shipments from our manufacturers used to be considerably larger than they are now, due to the backorders from the manufacturers. The demand is definitely still there; there just is not as much availability from the manufacturers.”
 - “Compared to last year, Keurig machine sales are great; the problem is they’ve only had one model readily available to us in 2010, not the higher-end ones.”
 - “I’ve been hearing about more and more problems with the B70 model and people sending them back to Keurig.”
- ▶ A sales representative for a multistate coffee provider’s Internet division said K-Cup sales are steady year to year. The company currently sells only the low-end Keurig model because of backordering. She does not believe the increased K-Cup availability in retail stores is affecting online sales.
- “We only have one Keurig coffee machine model available online because they have been on backorder since Christmas.”
 - “K-Cup sales are just holding. We have not seen much increase since last year—maybe a slight increase but not much.”
 - “We do not sell the reusable filters. I’ve heard more complaints about it than requests. I really don’t have anybody asking if we carry that.”
 - “K-Cups from time to time get backordered because they might have trouble keeping up with production.”
 - “Most retail locations carry different boxes than we do. They don’t inventory 100 different SKUs like we do, so at this time we aren’t feeling retail stores as competition.”



K-Cup Suppliers

Three sources said K-Cup sales have increased year to year, but they criticized the filters, for which demand has not grown. Sources said stores’ increased K-Cup inventory has led to higher demand from customers seeking more flavors, which are more readily available through distributors. They listed Tassimo as the closest competitor.

- ▶ The vice president of an authorized gourmet coffee dealer said K-Cups and Keurig machines continue to dominate the single-serve coffee industry in commercial settings and at home. He does not expect reusable filters to affect K-Cup sales.
- “Keurig is driving the industry, quite frankly. We have other single cups, but everybody is looking for K-Cups.”
 - “I don’t see anything coming in that will steal business from them in the next 12 months.”
 - “I buy 40 to 50 more varieties of K-Cups today than I did a year ago. For us to stay competitive, we need to have as many different varieties as possible. And there is great interest in these new varieties, which is telltale that K-Cups are on the rise.”
 - “The fact that you can buy K-Cups in any supermarket has added to the popularity.”
 - “The reusable filters are a joke. It’s so contrary to the whole concept

I buy 40 to 50 more varieties of K-Cups today than I did a year ago. For us to stay competitive, we need to have as many different varieties as possible. And there is great interest in these new varieties, which is telltale that K-Cups are on the rise.

Vice President of Gourmet Coffee Dealer

- of the machine. People will use it a couple times. It's too inconvenient, it's messy; you can't get the proper grind. I can't see people using that on a regular basis."
- "Everywhere you go, anybody you speak to knows what a Keurig is now."
- ▶ The CEO of an online wholesale distributor of coffee and teas said residential and office sales of K-Cups are growing as increased availability in retail stores is helping rather than hurting since retail stores cannot compete with the variety offered online. He is confident that Folgers K-Cups will be successful.
- "Single-serve sales are increasing as a lot more businesses are using single-cup coffee."
 - "Keurig's reusable filter is messy and not convenient. It defeats the purpose of the convenience of the single cup."
 - "A lot of people that bought coffee machines during the holidays are just now starting to order online, so I think it's too early to tell how these sales will evolve."
 - "People buy K-Cups in retail stores, but they only have about 10 varieties while we have 80. Customers may not buy from us in the beginning, but they'll come back and shop online to get more variety."
 - "I think it's a home run for Folgers. I don't know what the pricing will be for it, but I'm confident that it will be competitive. Folgers is a great product; we sell a lot of it."
 - "We are also seeing requests for [Nestle's] Nespresso. We don't handle the Nespresso product, but we have been seeing some requests for Nespresso."
 - "Bunn[-O-Matic Corp.] sales are up in offices since last year. Bunn machines allow you to have coffee for 10¢ a cup while Keurig is 50¢ a cup."
 - "All of our coffee sales are growing, not just one product."
- ▶ The president of a franchise tied to a large supplier of coffee and beverage systems for commercial use said K-Cup sales remain strong and show no sign of losing popularity. He believes K-Cup compatible machines from Jarden's Mr. Coffee and Conair Corp.'s Cuisinart will only strengthen K-Cup's presence in homes. He said the filter is contradictory to the Keurig machine's principle and use of them will not affect K-Cup sales.
- "In comparison to last year, sales of K-Cups are definitely up."
 - "A lot of the new business requests that we get are centered around K-Cups."
 - "They've been popular, with a steady rise over the last two years. I don't see any signs of them losing popularity."
 - "Even if something comes out with a machine that is very similar in price and very similar in quality ... Keurigs have gained such a tremendous foothold that I don't see anything changing anytime soon unless there is [a new product] that presents a significant advantage that comes out in the marketplace."
 - "K-Cup compatible Mr. Coffee and Cuisinart machines are going to help solidify [Keurig's] footprint in the home."
 - "[Keurig] thought it would be great to offer the My K-Cup filter, that people would try to use it once or twice, realize that the quality isn't as good, it's not as convenient, it's a little messy and just kind of revert back to the K-Cups, and that is exactly what is happening."

[Keurig] thought it would be great to offer the My K-Cup filter, that people would try to use it once or twice, realize that the quality isn't as good, it's not as convenient, it's a little messy and just kind of revert back to the K-Cups, and that is exactly what is happening.

President of Coffee Supplier



Industry Experts

Three of four sources said K-Cup sales are on the rise and will continue to grow during the next six to 12 months. Filters are not selling as well as expected. One source said K-Cups will struggle because consumers want more choice in coffee flavors, leading to more direct use of the filter. Sources expect more competition from Kraft's Tassimo, Mars Inc.'s Flavia, Sara Lee Corp.'s (SLE) Senseo and others as the specialty coffee market continues to grow.

▶ The CEO of a California-based coffee roaster said K-Cup sales show no sign of slowing down and lack a worthy challenger.

- "I'm getting more requests for K-Cups in 2010 than in 2009, so I'd say for the next 12 months they'll continue riding this wave of good fortune."
- "Sales of K-Cups are through the roof. There is no letup in people who want this product. When it started, I thought it would be a passing trend; but it is not. Green Mountain cannot be beaten because of the sheer choice that it offers people."
- "There is absolutely no indication that K-Cups are losing popularity; they are still as popular as ever if not more popular."
- "Specialty brews are taking off, but remember only 15% of the market is geared toward specialty while the other 85% is about convenience, which is what people really want. So home brewing is absolutely taking off in offices and at home."
- "Sales of the K-Cup filter are so-so. They are not taking off as much as was expected. Nothing can affect the sales of K-Cups because of the range of flavors offered."

Sales of K-Cups are through the roof. There is no letup in people who want this product. When it started, I thought it would be a passing trend; but it is not. Green Mountain cannot be beaten because of the sheer choice that it offers people.

CEO of Coffee Roaster

▶ A spokesperson for an American coffee association has witnessed tremendous sales of K-Cups. All indicators point to Green Mountain's coffee and the Keurig machines as a lasting phenomenon. They are hugely popular and still attract hoards of customers who want to buy K-Cups as much as ever.

- "Sales of single cup coffee are unprecedented. At first, they were seen as a cheap way to market coffee at home. Now we are seeing demand shoot up. The delivery, the freshness, the fact that single-serve eliminates waste—it could take over the coffee industry to the point where it becomes the norm."
- "Sales of K-Cups are increasing. Over the next six months the trend will continue."
- "There is absolutely no sign that K-Cups are losing popularity. I think that they could be getting more and more popular by the month."
- "Tassimo and Flavia are two brands that could make a big splash in this market."
- "Sales of the K-Cups filter are fair. They give the consumer more choice to use their own beans, but I do not think this will hurt K-Cups; people want that single-serve cup to be easy to make. That's why they like K-Cups."

▶ The editor of a magazine that caters to specialty coffee and tea drinkers said K-Cup sales currently are rising but could suffer if sales of more upscale coffee get a foothold in the market. Ironically, K-Cups have increased consumer demand for more specialty coffee at coffee houses.

- "Single-cup coffee sales are on the rise. There is still room for growth in terms of sales."
- "I do not think K-Cups are losing popularity, but Green Mountain caters to one end of a huge market. There is a growing consensus that people like what coffee houses can offer them and that market could be taking away some of Green Mountain's customers."

- “Brewer sales are increasing. This side of the specialty market threatens to take over the rest of the competition out there. K-Cups could see a drop in sales because of that.”
- ▶ The editor of a coffee and tea trade publication said K-Cups are in danger of losing sales because of their cost and lack of choice for customers who want to use their own brand of coffee in a Keurig machine. He believes the filter will directly reduce sales of K-Cups.
 - “Sales of K-Cups are OK this year, but they could be doing better. Compared to a year ago, they have fallen off slightly. They need to rethink their strategy and cut prices, or they could suffer because people cannot afford the cost. People need these products to be readily affordable, or they could go elsewhere.”
 - “There is an indication that K-Cups are losing popularity because they are not as versatile as people might like.”
 - “The K-Cup filter is selling pretty well because it offers consumers choice to brew their favorite coffee, whatever brand it may be.”
 - “There are many single-cup coffee machines entering the market that could prove serious competition to Keurig: Senseo, Illy[caffè S.p.A.], Tassimo. These companies have pods that can be used in any single-serve machine. They offer consumers choice, which is what Keurig is not doing with its K-Cups.”
 - “Espresso will be the new must-have coffee that people want to make at home. Tassimo is big in Europe, so I would watch what they do next.”

ADDITIONAL SOURCES



A review of seven secondary sources uncovered customer complaints about the K-Cup filters brewing a weak cup of coffee, being hard to use and creating a mess, thus taking away the K-Cup convenience. Still, the filter was commonly referenced as an alternative for the Keurig machine.

- ▶ A March 16–17 discussion in response to an advertisement for EZ-Cup, a filter made by Perfect Pod for Keurig machines, shows two customers who give a dissatisfactory rating to the filter because of mess and difficult usage. A third customer said the device is better than the My K-Cup, which comes with the Keurig machine.

<http://www.bestkitchensupplystore.com/ez-cup-by-perfect-pod-for-keurig-coffee-machines.html>

- “The EZ-Cup has not met my expectations. I’ve tried using two filters, reaching in with a finger to assist the spring in packing the coffee, various grinds, but in the end, no matter how much coffee I put in the filter, I end up with a weak brew at best. I love the easy cleanup, but that’s not enough to offset coffee that doesn’t come close to my expectations.”
- “I have read many reviews about this. All I am able to do is make a mess. I cannot make a cup of coffee with the EZ-Cup without loads of grounds. Help!!!”
- “My brewer came with the My K-Cup, but using it was messy and inconsistent and I usually had grounds in my cup. Not with this product. I ordered this and filters to go with it and now buy whole coffee beans in the grocery store and have a perfect cup of coffee every time at a more affordable price.”

- ▶ An April 10 t20talk.com post described the Keurig My K-Cup filter as ineffective and a waste of money.

<http://t20talk.com/prestonlonzo/2010/04/10/keurig-my-K-Cups-reusable-coffee-filter/>

- “So you spend good money to have a great cup of coffee? I did. ... Well, don’t waste money buying the My K-Cup Reusable Coffee Filter because you’ll end up with a very watered down version of the fabulous coffee you COULD be having. I spent on this and used it about 3 times. I kept thinking I was doing something wrong until I started reading more reviews and I’m not the only one who hates this thing.”
- ▶ An April 12 comment to a K-Cup posting showed one customer’s preference for using the filter as a cost-savings mechanism.
<http://www.best75.com/green-mountain-K-Cups-single-serving-coffee-108-ct-nantucket-blend/>
 - “It is expensive to use with the K-Cups, costing the average family \$50+ a month. To cut this cost to as low as \$10 I use the k-filter with the machine.”
 - “The loose/ground coffee in the filter gives you a stronger cup but still not the greatest but better than the K-Cups alone by far. Using the Keurig you must make a choice to sacrifice quality over convenience. I make that sacrifice during the week as I have little time on the weekday’s to brew a pot of coffee.”
 - “But I choose to use the filter with the Green Mountain loose/ground coffee and get a slightly better cup and save about \$40.00 a month.”
- ▶ In an April 10 Strippers Online forum, Green Mountain and K-Cups were frequently referenced in a coffee discussion. One participant expressed frustration at the mess created by using the My K-Cup filter, while another wrote that he buys a box of 80 K-Cups per month.
<http://www.stripersonline.com/surftalk/showthread.php?t=726909&page=2>
 - “I love coffee! Green Mountain is pretty good to brew at home.”
 - “Green Mountain Nantucket Blend is what I’ve been sucking down lately from the Keurig.”
 - “I also like the Green Mountain Nantucket Blend for the Keurig. ... I bought the reusable K cup thing, but I’m having a hard time getting a decent cup of coffee out of it. I’ve been using the DD ground coffee and I think the size of the grind is too big. ... K cup overflows dumping water into the cup making it weak.”
 - “Green Mountain Hazelnut is my cup of choice. I just got a box of 80 cups for my Keurig. Should last a month or so.”
- ▶ A March 22 thread on a cigar forum discussed K-Cup’s convenience and how the filter can be a solution for those concerned with waste from the single cup.
<http://www.cigarsmokers.com/threads/13081-Single-Cup-Coffee-Makers>
 - “I have a Keurig and it’s great for one cup brewing in the mornings before work. ... For a quick cup they work great. The only con with the quality that I noticed is that my coffee seems to cool off quicker than other brewing methods. ... The price of the K-Cups aren’t that much more [than] beans. I’m not a huge fan of the waste the K-Cups produce but there is the option of buying the reusable pod.”
- ▶ In an April 4 Palm Inc. phone discussion forum about coffee preferences, commenters touted K-Cups as their coffee of choice. One forum member preferred to use the filter, but another said the filter did not produce a quality cup.
<http://forums.precentral.net/off-topic/239976-coffee.html>
 - “A few years ago we made the switch to the coffee pods and now to the K-Cups. I don’t know if I could ever switch now. I found some great strong, bold coffee and the convenience is awesome!”
 - “K-Cups are great, especially the Double Black Diamond and Espresso Blends.”

- “I bought a couple of refillable cups and fill them with Dunkin’ Donuts coffee—less wasteful and tons cheaper than the K-Cups.”
 - “I can’t seem to get a decently strong cup of coffee out of the refillable cups. I’ve tried different grinds and the closest I can get is to use a fine grind and brew a small cup.”
- ▶ A March 22 SingleServeCoffee.com article introduced a new K-Cup energy coffee drink, showing how Green Mountain continues to innovate with new K-Cup options for its Keurig machines. <http://www.singleservecoffee.com/archives/031818.php#more>
- “There’s a new type of coffee for your single-serve coffee maker—revv and revv Pulse energy drinks. Responding to the exploding consumer interest in energy drinks, Green Mountain Coffee Roasters, Inc. has introduced two new K-Cup portion packs for Keurig Single-Cup Brewers that contain more coffee and more kick.”
 - “The revv and revv Pulse K-Cups pack more coffee into every K-Cup, so you can supercharge your day without extra sugar or calories. revv and revv Pulse were designed to appeal to the same active consumers who made energy drinks the fastest-growing beverage category in the U.S.”

NEXT STEPS



We will continue to monitor reusable filters and their acceptance among Keurig customers. One-third of our customer source base uses a K-Cup filter, and we will revisit this silo to determine if this usage will continue despite complaints about weaker coffee and more mess.

Many K-Cup drinkers bought their Keurig machines as a cost-savings device. They may increase their visits to coffee shops as the economy improves. Our next report will follow this.

Finally, we will follow up with retail and online stores about Keurig inventory as several mentioned a short supply of Keurig machines.