

GMCR's Keurig Safe from SBUX's Verismo; Threatened by Patent Expiration

Companies: AMZN, BBBY, COST, DNKN, KSS, GMCR, SBUX, THS

April 26, 2012

Research Question:

How will new competition from Starbucks affect Green Mountain Coffee Roasters' market share?

Summary of Findings

- Ten of 12 sources knowledgeable about [Starbucks Corp.](#)'s (SBUX) [Verismo](#) said it will not dramatically affect [Green Mountain Coffee Roasters Inc.](#)'s (GMCR) sales. The single-serve espresso machine appeals to a different audience than GMCR's coffee drinkers.
- Verismo is more likely to compete with GMCR's coming single-serve espresso offering with [Luigi Lavazza S.p.A.](#) Verismo's price needs to compare in order to compete with Keurig.
- GMCR's [Vue](#) will attract customers new to the single-serve market, but 20 of 28 sources said it will not entice [Keurig](#) owners to upgrade, citing higher price and lack of compatibility with [K-Cups](#).
- K-Cups' patent expiration is the biggest threat to GMCR. One supplier said at least five roasters anticipating patent expiration have purchased K-Cup assembly machines. Keurig's best response would be to lower K-Cup prices.
- Eight sources said Keurig and/or K-Cup sales have increased year to year. Three sources said sales have dropped off, while the remaining sources said sales have remained steady.
- Two Keurig Authorized Distributors and one supplier said their relationship with GMCR is strained as the company becomes more rigid in what it allows resellers to sell, including eliminating knock-offs, and focuses more on the store retail channel.
- Inventory concerns and expired K-Cups no longer exist in the retail channel. One source said [M. Block and Sons Inc.](#) distribution is back on track since last year. K-Cups were seldom discounted.

Silo Summaries

1) ONLINE DISTRIBUTORS

Two sources said K-Cup sales were declining or had peaked; while two others said sales continue to climb. Of greater concern is their relationship with GMCR, as the company tightens restrictions on distributors. **Both Keurig Authorized Distributors, which derive 70% to 80% of their business from GMCR, are considering ending their agreement with GMCR since they are not allowed to carry and sell knock-off K-Cups.** The Vue will not affect Keurig and K-Cup sales, as current customers are not likely to upgrade. Similarly, sources do not expect the Verismo to take share from GMCR.

2) COMMERCIAL SUPPLIERS

Three sources said Keurig and K-Cup sales remain steady. The growing single-serve market has room for both the Vue and Verismo, but neither is expected to disrupt Keurig's reign. **The expiration of K-Cup patents is more of a threat to GMCR.** The Vue is expected to be attractive to offices and a commercial model is said to be coming out in September. One source expressed frustration with Green Mountain for not allowing him to carry Vue Packs now, as he is losing potential sales as customers turn to other outlets. Sources reported good inventory, efficient distribution and no discounts.

3) INDUSTRY SPECIALISTS

Five sources said Verismo will not take customers away from GMCR. K-Cup sales will remain strong in the short-term, but sources fear the effect of expiring patents. **The Vue is the logical next step for GMCR as it addresses Keurig's shortcomings, more likely to appeal to new customers than Keurig customers upgrading.**

4) STORE MANAGERS

Seven of eight sources said Keurig brewers continue to sell well. All four stores that currently carry the Vue said it will not take sales away from Keurig as mostly new customers will be purchasing the new single-serve offering rather than existing Keurig customers upgrading to it. **A higher price and the lack of compatibility with K-Cups are main detractors.** Knowledge of the Verismo was very limited.

5) CUSTOMERS

Seven Keurig owner sources are happy with their machine and would not switch to the Vue or Verismo. Concerns include the lack of ability to use K-Cups with the Vue or Vue Packs with the Keurig. Our eighth source, who did not previously own a single-serve machine, owns the Vue and is very happy with it, though she acknowledges it is not for everyone based on price and its larger size.

	Starbucks' Verismo Will Hurt Keurig	Keurig Owners Upgrading to Vue	Keurig/K-Cup Sales Trends
Online Distributors	↓	↓	→
Commercial Suppliers	↓	→	↑
Industry Specialists	↓	→	→
Store Managers	N/A	↓	↑
Customers	N/A	↓	↑

Green Mountain Coffee Roasters Inc.

Background

The premium single-serve segment is the fastest-growing business within the global coffee industry. Green Mountain is a leader in this segment, but competition is mounting, including a recent entry from Starbucks. Combined with the expiration of its K-Cup patents in September, Green Mountain appears increasingly vulnerable. Blueshift Research's January Green Mountain [report](#) found sources more guarded in their tone and outlook on Green Mountain than in Blueshift's previous five reports over the last two years.

CURRENT RESEARCH

Blueshift's upcoming report aims to determine Green Mountain's current market position and what effect increasing competition, including Starbucks' new entry, will have on GMCR.

Blueshift employed its pattern mining approach to establish and interview sources in six independent silos:

- 1) Online Distributors (4)
- 2) Commercial Suppliers (3)
- 3) Industry Specialists (5)
- 4) Store Managers (8)
- 5) Customers (8)
- 6) Secondary Sources (10)

Blueshift interviewed 28 primary sources, including four repeat sources, and included 10 of the most relevant secondary sources, focused on [Amazon.com Inc.](#)'s (AMZN) aggressive move into the single-serve market, reviews of the Vue and Verismo, profiles of quality K-Cup knock-off [Rogers Family Co.](#) and industry trends showing growth in the single-serve market.

Silos

1) ONLINE DISTRIBUTORS

Two sources said their K-Cup sales were declining or had peaked; while two others said sales continue to climb. Of greater concern is their relationship with Green Mountain, as the company tightens restrictions on distributors and pushes business to the brick and mortar retail stores. Both Keurig Authorized Distributors, which derive 70% to 80% of their business from Green Mountain, are considering ending their agreement with Green Mountain since they are not allowed to carry and sell knock-off K-Cups, giving non-authorized distributors more flexibility in the products they can carry, which becomes more significant as K-Cup patents expire this fall. The Vue will not affect Keurig and K-Cup sales, as current customers are not likely to upgrade. Similarly, sources do not expect the Verismo to take share from Green Mountain as it appeals to a different audience. Verismo is more likely to compete with the single-serve espresso machine Keurig and Lavazza are creating. One source said M. Block is back on track with its distribution after difficulties a year ago. One source from Blueshift's January report said his company is no longer working with Green Mountain so he could not comment for this report. His comments in January centered on K-Cups losing ground to coffee pods for alternative single-serve formats.

➤ IT director for a Keurig Authorized Distributor; repeat source

K-Cup sales for this online store are down 11% year to year in the first quarter of 2012. The source expects sales to remain steady entering the spring and summer. The top concern is whether the company's exclusive contract with Keurig is going to work against its ability to do business in the post-patent climate. The company has carried an exclusive contract as a Keurig Authorized Distributor (KAD) since 2006, but Green Mountain is forcing the company's managers to consider ending that agreement as Green Mountain limits them to selling only the old technology. This company received a letter from Green Mountain saying the new Vue machine will be sold only in retail stores, not through online stores. But this source does not expect his customers to be all that interested in the new machine, which at \$249, is priced \$100 more than the typical Keurig machine. He has not received inquiries from customers about the Vue or Starbucks' new Verismo machine. Online retailers, which account for 10% of Green Mountain's distribution, are losing out to favored

Green Mountain Coffee Roasters Inc.

brick-and-mortar retailers like [Bed Bath & Beyond Inc.](#) (BBBY). Inventory levels are on par with a year ago, there is no discounting and M. Block is back on track with its distribution.

- “Green Mountain is more or less squeezing the online retailer out of the picture. ... If they continue to pull products, we have to ask, ‘Do we want to continue to be the authorized Keurig distributors?’”
- “We don't want to [leave GMCR], but we've got to keep our options open. It's on the table.”
- “Once these patents expire, we're going to see the market flooded with these K-Cup-style brewers.”
- “I expect that we'll see other roasters get into the K-Cup business. It's going to open up the market. We'll be able to buy their product—if the K-Cup-style machine stays out there.”
- “I expect to see a three- to four-year run on the old equipment.”
- “Places like [CoffeeOutlaw.com](#) are carrying a lot of stuff that we KAD dealers can't get our hands on like [Café Escapes](#) and [Timothy's](#). ... Now that the K-Cup patents are about to expire, these guys are going to pop up all over the place.”
- “We were hoping to get the Vue brewer. We can't sell it through the online retail channel, but we can sell it through our office coffee service division.”
- “We haven't had a lot of people contacting us yet for the Vue or the Starbucks machine. I think this whole industry is waiting to see what happens.”
- “I haven't seen any discount on K-Cups. We are holding inventory at the same levels as last year—about 1 to 1.5 million for three to four weeks in sales, about 70% of which is K-Cups. Everything seems to be coming in with decent shelf life.”
- “M. Block went through a period where stuff was back-ordered a year ago. They seem to have gotten things straightened out. The problems last year were likely from a sudden infusion of new products from Green Mountain, which gobbled up some little roasters. There was kind of a burp in their production.”
- “The K-Cup can cost \$0.60 to \$0.65 per cup of coffee, which is 50% more than people would pay for a brewed cup. If customers fall on hard times and money is tight, they will brew more pots of coffee instead of single-serve. There's a select group out there who is cognizant of that.”

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*IT Director
Keurig Authorized Distributor*

► Vice president for a Keurig Authorized Distributor

Sales of K-Cups are up 10% to 15% in the first quarter of 2012 year to year, attributing all the gain to new customers. Because a box of 24 K-Cups now costs \$14.99—up from \$11.99 a year ago—existing customers are ordering less. Like other authorized Keurig distributors, this company is weighing the value of its relationship with Green Mountain. Green Mountain has limited the company's offerings and is making the purchase of discounted product in bulk a little harder. The Vue will not take significant purchases away from Keurig because the machine is more expensive. Also, Starbucks' Verismo will have little effect on Keurig and K-Cup sales as they each attract a different type of consumer. This is a Keurig Authorized Distributor that has done 750,000 orders in 10 years in business. Eighty percent of that business is in Keurig machines and K-Cups.

- “The K-Cups are doing pretty well. We're still seeing growth even though the offerings are significantly less.”
- “Somebody who has been a [Keurig] customer is buying fewer K-Cups—I would say between 10% and 20% [less]. We're making it up with new customers.”
- “The relationship we have with Green Mountain is not the best. We built the business for them, but we're so restricted on what we can do. There's going to be a lot of soul-searching.”
- “With the Vue, they're trying to get people to spend more money. ... The Vue pods are different. Now you're trying to get customers to use a new product. I don't think that will work. You're dealing with a customer base that is addicted. If something's working, why fix it?”
- “With Starbucks, I think it's a different customer. Starbucks is a very different coffee. I really don't see it being a big impact [on Keurig].”
- “Keurig customers are very loyal people. All they want is Green Mountain coffee.”

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*Vice President
Keurig Authorized Distributor*

Green Mountain Coffee Roasters Inc.

- “M. Block is OK. They're just like any other player out there.”
- “Green Mountain is making it a little bit harder to sell what we need to keep up.”

➤ Sales representative for website that sells espresso machines

K-Cup sales have plateaued in the last year after years of tremendous growth. Inventory has remained consistent for the last 12 months. K-Cups will continue to have strong sales after patents expire because of the large variety of flavors offered. Starbucks' Verismo faces strong existing competition in the home espresso market, especially on the high-end. It also must overcome Starbucks' first failed attempt at an in-home brewer. This source sells high-end espresso machines ranging in price from \$800 to \$3,000.

- “Sales of K-Cups climbed until about a year ago, when they leveled off, and have held steady since.”
- “My inventory on K-Cups has remained steady this quarter over the first quarter of last year. We sell a bunch of them. They're pretty decent.”
- “I'm not concerned about patent expiration on the K-Cups because of all the varieties and flavors the company sells.”
- “We are not an exclusive Green Mountain dealer. We carry the non-authorized Timothy's brand. But Green Mountain single-serve products are extremely popular. They always sell really well for us.”
- “Starbucks used to have their own machine, [the Barista](#), and it sucked. It ranged from between \$200 and \$600 and it was badly built.”
- “I don't think Starbucks will make in-roads in the home espresso market. There are enough of them on the market already. There are hundreds of high-pressure machines. They're not breaking the mold or anything.”
- “Starbucks' presence is not a big impact.”

Sales of K-Cups climbed until about a year ago, when they leveled off, and have held steady since.

*Sales Representative
Espresso Machine Online Retailer*

➤ Residential sales representative East Coast coffee company; repeat source

Sales of Green Mountain products continue to rise and are expected to do so even after K-Cups' patents expire. Starbucks or off-patent competition will not affect Green Mountain. K-Cup prices may lower a bit when faced with competition, but consumers are loyal. Green Mountain recognizes that some customers may appreciate a better cup of coffee, and the Vue was designed for these customers, though it is unlikely to affect K-Cup sales. Green Mountain may also expand its coffee-only drinks to milk-based drinks, like Starbucks. In addition, Green Mountain's agreement with the Lavazza will give the company another avenue for sales. Two unexpected competitors of Starbucks and Green Mountain are [McDonald's Corp.](#) (MCD) and Dunkin' Brands Group Inc.'s (DNKN) [Dunkin' Donuts](#) which have specialty coffees that are convenient and less expensive, and sales that continue to grow.

- “Our Green Mountain sales are increasing every year, and I think they will still go up even next year, despite the patent expiration.”
- “Green Mountain has the products; the distribution. They have the advertising and they have the money behind their brand. This is not going to change, despite a new Starbucks machine or other competition.”
- “Green Mountain has a solid following. It will be tough for the competition.”
- “Green Mountain is always adjusting and adding to its product line, adding the Vue, which attracts customers who want a better coffee. They are rounding out the customer needs. The Vue will not affect K-Cups; most customers are happy with the pods and their current machines, but the Vue will sell to a customer seeking something more.”
- “Starbucks keeps trying new things. Now they are trying to break into the home market. They don't sell a lot of straight espresso. They basically make milk-based drinks. Green Mountain sells a lot of products, but it is focused. It is all about coffee. They will come out with a milk-based drink.”
- “Green Mountain still has the joint agreement with Lavazza Coffee and the espresso capsules. [Green Mountain] is always looking ahead.”
- “The market is going to single-serve coffee. It is all about convenience. The pods are inherently excessive in cost, wasteful, and there is not a lot of coffee in there.”
- “There will be tremendous competition when the K-Cups go off-patent.”

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*Residential Sales Representative
East Coast Coffee Company*

Green Mountain Coffee Roasters Inc.

Green Mountain may drop prices some, but they won't need to drop them by much. They have a following that is sold on Green Mountain."

- "Green Mountain and Starbucks may well apply pressure to imitators. What about the Starbucks' [litigation with Kraft](#)? It went on for a long time, and Starbucks got what they wanted."
- "Starbucks has brand allegiance. They don't make the best cup of coffee out there, but frankly, it is hip to drink Starbucks. I think everyone in coffee will tell you this: We are all grateful that Starbucks has introduced coffee to everyone, even if it is not good coffee."
- "[Nestlé S.A.'s/NESN:VX] [Nespresso](#) is a competitor, but not really a big problem for Starbucks. The biggest competitor for Starbucks and home brew [such as the pods] is McDonald's. I'm not kidding. McDonald's has spent millions on coffee, and it has increased overall store sales. They bought good equipment, and they offer cappuccinos, lattes at cheaper prices. They've done tons of advertising, and it has paid off. Dunkin' Donuts is also a competitor, and their chains are increasing."

2) COMMERCIAL SUPPLIERS

Three sources said Keurig and K-Cup sales remain steady and should do so through the summer as the convenience factor pushes Green Mountain's popularity in the office setting. The growing single-serve market has room for both the Vue and Verismo, but neither is expected to disrupt Keurig's reign. The expiration of K-Cup patents is more of a threat to Green Mountain as it invites more and lower-priced competition to K-Cups. One source said at least five roasters have purchased K-Cup assembly machines in anticipation of the patent expiration. Green Mountain continues to crack down on anyone carrying and selling knock-off K-Cups. The Vue is expected to be attractive to offices and a commercial model is said to be coming out in September. One source expressed frustration with Green Mountain for not allowing him to carry Vue Packs now, as he is losing potential sales as customers turn to other outlets. He said he has lost some K-Cup sales with the introduction of the Vue, but said it is minimal. Sources reported good inventory, efficient distribution and no discounts.

► Co-founder of an office coffee service supplier in New York; repeat source

Green Mountain remains ahead of anyone else, including Starbucks, in the single-serve coffee market. Starbucks' new machine is allegedly a refurbished version of an existing machine currently on the market and will likely fight for market share with Green Mountain's new Lavazza machine, not the Vue. The Vue is more geared toward an upscale consumer with K-Cups still driving sales for a while. Meanwhile, the partnership between Green Mountain and Starbucks to package Starbucks K-Cups remains intact.

- "Green Mountain's market share is still pretty much strong. I don't think that anyone is going to knock them off their perch anytime soon. They have too much of a head start over everyone else."
- "The Vue is making more of an impact on the market than the Verismo simply because it is out already."
- "People think the Verismo is going to sell against the Keurig and the Vue, but the Starbucks machine will really be selling against the Keurig Lavazza."
- "The Starbucks machine is an espresso maker; it's not an American-style coffee. The Keurig Lavazza machine is supposedly going to come on the market this calendar year. My guess is if Starbucks' machine is supposed to come out in September, I wouldn't be surprised if the Lavazza machine comes out a little beforehand."
- "Anything with a Starbucks name is going to have some impact on the single-cup machine market, but it's going to be more of an espresso focus than coffee."
- "This Starbucks machine: it's not new to the market. The machine exists already. They supposedly purchased the rights or designed a shell to match Starbucks. But it's not something that's a brand new technology."
- "They are putting the Vue out on the home market before I get it. It puts me at a disadvantage."
- "Keurig is pushing the threshold. They think with the Vue that people are willing to pay \$0.70 or \$0.80 per K-Cup so [the company] is willing to go with this new machine to increase revenue. There is a market for it, but it may be pushing the envelope too much."

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*Co-founder
Office Coffee Service Supplier
New York*

Green Mountain Coffee Roasters Inc.

- “The price of the Vue Packs is about \$0.20 more than what you can find with us or at a [Costco](#) [Wholesale Corp./COST] for K-Cups. There also will be a larger pod that holds more coffee, specifically formulated for 18-oz. coffee or travel-size mug.”
- “Green Mountain is not abandoning the K-Cup. I have heard they don’t intend for the Vue to replace the K-Cup line. They are looking at the Vue as an upscale line for people with a little more money in their budget. It’s going to be more expensive, but a little more premium in quality.”
- “With the Vue, you’ll have six size options, but there will be a heavier Vue Pack for the 18-oz. cups. The machines are programmable. You can set the pressure; the seep time. You can be more specific in terms of your specific views of a cup of coffee.”
- “We don’t yet have the Vue machine available to us. The commercial units will not be available until September. It’s only going to be a pour-over machine, meaning it’s not going to be hooked up to plumbing. Right now the commercial units can be hooked up to a plumbing line, but the home is not.”
- “The Vue Packs are only available right now at Bed Bath & Beyond, and Green Mountain may inch it out to the home market, at places like Costco, by the end of the summer. Right now there are only 30 [varieties] of Vue Packs.”
- “It’s like an oversized K-Cup. It’s supposed to be made from [a number five recyclable plastic](#) and supposedly half the communities in the U.S. recycle this. Unfortunately, it’s not so in New York. ... So it’s not exactly as environmental as Green Mountain set out to be.”
- “We will carry the Vue line if there is more money in it for us, of course. We are anxious to get it in here, as I will be for the Starbucks and the Lavazza machines.”
- “I already had a white collar client ask if I have the Vue Packs because they already bought two Vue machines and will likely buy Vue Packs on the Internet, which will hurt my sales. I plan to express my displeasure [during a scheduled meeting with Green Mountain] next week.”
- “There is some anticipation for the Starbucks machine. I have heard some of that and I have had some loss of business to the Vue Packs so far, but not a glaring amount.”
- “K-Cups aren’t going away for a while. The Vue has to catch on much more to do that. They are making something like 200 million K-Cups per week and that is just not going to go away.”
- “There is one little company, called [Grove Square](#). They’re in litigation with Green Mountain because they came out with a K-Cup, but it’s not a good coffee.”
- “Inadvertently, we got a trial case of that Grove Square here to test, and one of my coworkers put it up on the website as a new product. The Keurig ‘police’ actually found it on our website and said, ‘You don’t have the right to sell it here.’ Are you kidding? I have one case in stock and they found me, of all people. Apparently—because they are in litigation—Keurig was actively trying to find proof that they were being used in commercial brewers. ... They are more aggressively fighting [K-Cup knock-offs] and they may get more defensive as other things open up, but I have excessive contracts I sign every year without Green Mountain [interruption].”
- “No one I’ve talked with is willing to divulge names, but I’ve had sources say that they know at least five roasters that have purchased K-Cup assembly machines in anticipation of the patent expiration. I expect that will boost competition.”
- “Green Mountain has done a better job of K-Cup distribution as of late. They have streamlined [their inventory]; got rid of some duplicate products. And, now we have a clearance section that we put them up on if we need to.”
- “I’m not seeing any discounts on K-Cups.”
- “The best thing that can happen is that all this competition forces them to lower their prices on K-Cups.”

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*Co-founder
Office Coffee Service Supplier
New York*

➤ **Garry Burman, owner and founder of [Burman Coffee Traders](#)**

Both the Verismo and the Vue can be successful because the overall coffee market continues to grow, maybe by as much as 10% a year. Pod sales are slower, but consistently going up. Burman’s sales are up 25% each year, in part because of participation in Phillips Office Solutions, which distributes Keurig machines, pods and coffee to businesses throughout the United States. K-Cup sales will continue to grow for the next six months. The patent expiration will encourage independent roasters to develop a good pod, which will eventually make a dent in K-Cup sales. Currently, K-Cup knock-offs are not a market threat. Starbucks has played a major role in enhancing American pallets, and the Verismo will move

Green Mountain Coffee Roasters Inc.

that education forward. Until then, consumers will prefer the convenience offered by Green Mountain's Keurig and K-Cups.

- "Both the new Keurig and Starbucks machines could be successful. There is room to grow. The overall coffee market may be growing by as much as 10% a year, while pods are growing incrementally. There is a lot of interest in coffee."
- "The Starbucks and Keurig machines will continue to sell well into the future, especially if they prove capable of making a really good cup of coffee. With new, fresher pods coming out in the future, that may be possible. Starbucks lovers who use Keurig machines with the old Starbucks pods will eventually buy a Verismo. Maybe they'll save the old Keurig for a second home or their kids. It will still be a perfectly good machine."
- "There is a market for the new devices and the new pods. Pod prices and sales will continue to increase for the next six months, maybe until the end of the year. But the proof will be in the pudding. You won't know until Starbucks' new pod comes out. The Vue pod is still new, but time will tell if it will make better coffee and capture more interest."
- "We sell roasted coffee through the Phillips beta program, which loans Keurig machines to businesses and sells pods. With that program and our online business, sales have increased 25% each year for the past few years."
- "Starbucks is a bit more sophisticated. They are a grade up. Starbucks taught the public a bit about good coffee. When their new machine comes out, even more people will learn about good coffee. People into better coffee will buy the Starbucks' machine. People sold on convenience, however, will not give up the Keurig pods, and they will continue to buy the Keurig machines."
- "Green Mountain is making a killing on the pods, which use little coffee and aren't fresh. The companies must pride themselves on the small amount of coffee they put in each pod and the high price the pods are sold for. The company is not catering to people who want a good cup of coffee. It's the convenience factor that draws uneducated coffee drinkers in. There's lots of interest in convenient coffee."
- "After the Green Mountain pod goes off-patent, more independent pod makers will come out with far better coffee in pods. There are five roasters who make their own pods for roasted coffee. The independent pods will be more competition for Green Mountain than the new Starbucks home system. We tried to make pods, but we gave up. Maybe we will try again sometime."
- "The price of all types of pods could even go up from here. People like the pods; they are hip, they are convenient, they will keep selling. But I'm skeptical about pods. People can buy good roasted coffee for far less than they are currently paying for stale pods. As more people get hooked on good coffee, they may wake up and realize a good cup of coffee costs less than the pods."
- "It is possible that at some point, the public will become more sophisticated, and the trend may move toward better coffee rather than stale pods."
- "I don't know M. Block. We use Phillips as a distributor."

After the Green Mountain pod goes off-patent, more independent pod makers will come out with far better coffee in pods. There are five roasters who make their own pods for roasted coffee. The independent pods will be more competition for Green Mountain than the new Starbucks home system.

*Owner & Founder
Burman Coffee Traders*

➤ **Manager overseeing equipment purchases for a coffee service business**

The Verismo will not affect Keurig and Green Mountain commercial markets. Keurig's market has been on the upswing and is expected to stay that way throughout the year. Their new machines are easy to use and convenient for an office setting. Imitation K-Cups may make a dent in Green Mountain sales after patent expiration. The source hasn't experienced inventory problems.

- "The new Starbucks [Verismo] will probably not affect our target market, which is looking for fast coffee, not necessarily good coffee. Keurig machines [in the office setting] are on the upswing the past six months, and [this market] will continue to grow, like last year. Keurig won't be affected much by Starbucks."
- "Outside availability of K-Cups will threaten K-Cup sales [after patent expiration]."
- "The newer [Keurig] [B150s](#) and the [B3000s](#) have become increasingly user friendly and more durable. They have one-touch technology that is mess-free. The machines are compact and will fit any office size."
- "We don't have inventory problems for the machines or K-Cups."

Green Mountain Coffee Roasters Inc.

- “Each new machine that comes out is more up-to-date technologically.”
- “The new Keurig [Vue] is a better looking machine and offers better customer interaction. This is a plus for our audience. It is too early to tell about the Starbucks machine, but that is not where [our market] is heading.”

3) INDUSTRY SPECIALISTS

Five sources said Verismo will not take customers away from Green Mountain and that Starbucks' single-serve machine will compete more directly with Nespresso and the coming Lavazza machine in partnership with Green Mountain. K-Cup sales will remain strong in the short-term, but sources fear the effect of expiring patents, saying the increased competition is likely to cause Green Mountain to reduce prices on its K-Cups. The Vue is the logical next step for Green Mountain as it addresses Keurig's shortcomings by giving customers more control and flexibility. But it is more likely to appeal to new customers than result in Keurig customers upgrading. To address patent issues, K-Cups and Vue Packs are not interchangeable, which will likely keep Keurig owners from embracing new technology since they can't use Vue Packs in their Keurig or K-Cups in their Vue.

➤ Editor, specialty coffee industry trade magazine; repeat source

The Vue allows consumers more flexibility and choice in making their single serving of coffee, but it requires the additional investment in a new machine. If customers are willing to make this purchase, Green Mountain could have a winner on its hands because the proprietary nature of the new pods would offset expiring patents for K-Cups. Starbucks' limiting the availability of its Verismo to its stores and online rather than retailers is a questionable strategy which could hold back its adoption.

- “Green Mountain's success is going to really depend on how they emphasize the Vue and de-emphasize the K-Cup. It's a question of, 'Can you sell the machines and make proprietary pods?’”
- “Whether the big retailers will carry products for the Vue system really is the big question. The Keurig system is not going away. We are going to see a test of Green Mountain's marketing clout.”
- “The Vue is more flexible in that it can be programmed for temperature and portion size.”
- “More [competitors] are going to be making the pods. It's going to be driving down the exclusivity for the pods. The Vue gives them a proprietary pod. If that can get widespread acceptance, then they'll have a ready-made market for their pods.”
- “The pod for K-Cup is perfectly round and ordinary. The pod for the Vue is really different. It has a unique look; it bulges at one end. A large part of it is, they wanted to make the pod proprietary and keep the technology to themselves.”
- “Right now, GMCR is pushing the new machines into hospitals, offices and hotels, which are the biggest target for single-serve systems. However, the home market is the fastest growing. Only 7% of homes have a single-serve brewer.”
- “I was a little surprised by how Starbucks was going to market the machine. They're going to market it online and through their own stores—not through retailers like Target or Kohl's or Macy's. I have to kind of question why Starbucks is doing that.”
- “It's a question of high pressure versus low pressure. Vue is a low-pressure machine. I expect that the Verismo will be significantly more expensive for that reason. If you see the machines side by side, the low-pressure machine is going to be a lot cheaper.”

Green Mountain's success is going to really depend on how they emphasize the Vue and de-emphasize the K-Cup. ... Whether the big retailers will carry products for the Vue system really is the big question. The Keurig system is not going away. We are going to see a test of Green Mountain's marketing clout.

Editor, Coffee Industry Trade Magazine

➤ Regional sales manager in the specialty coffee industry

Starbucks' Verismo will cater to a more discerning and knowledgeable consumer and will not pull many customers from Green Mountain. Each company caters to a different type of coffee drinker—Starbucks to the more knowledgeable and Green Mountain to the less discerning. Sales of K-Cups will not slow down in the next six months. The demand for convenient quality coffee for home use continues to drive sales of K-Cups and Keurig machines, causing customers to overlook the high price. Not allowing K-Cups to work in the Vue locks consumers into the Vue or the Keurig machines and

Green Mountain Coffee Roasters Inc.

may cause some confusion. Consumers may choose to stick with the system they know, resulting in slower sales for the Vue and keeping current Keurig customers from upgrading.

- “The Starbucks Verismo won’t pull a lot of customers from Green Mountain. Keurig customers are already set in. They are happy. They are a different type of customer from a Starbucks customer. A Starbucks customer will always be a Starbucks customer. Customers who purchase their whole beans at Starbucks will be interested in the Verismo and continue to purchase their cups at Starbucks.”
- “Sales of K-Cups and Keurig machines are growing significantly because of the demand for a higher quality coffee for home use. There will be continued growth in the next six months. I don’t see Keurig slowing down.”
- “There hasn’t been a lot of interest yet in Verismo. They haven’t promoted it much yet. But it seems like a simpler approach to making a brew. The price hasn’t been announced yet. I’m not sure how it will compare to the Vue at \$249.”
- “Consumers just have different tastes. The more knowledgeable consumers prefer intense flavor. The average consumer is more comfortable with a standard machine.”
- “K-Cups are very expensive when you break it down into how much you are getting and how much you are spending. People don’t realize they are spending more. Their minds won’t go there. It is easier to think they don’t have options. A 1-pound bag of beans costs \$10 to \$14, but when you compare the price of a cup of ground coffee to the price of a K-Cup, the bag is significantly less. I don’t see these prices going down. A lot of packaging goes into K-Cups.”
- “The current K-Cup is very easy; people prefer it to the reusable cup, which can get messy. But the Vue’s recyclable cup should be easy as well and may appeal to environmentalists. And, Starbucks will have a different cup, too.”
- “Keurig machines lock you into [using K-Cups]. Sometimes when you have too many choices, it becomes hard for the customer to decide. Consumers may be comfortable just sticking with what they have.”
- “The Keurig Vue has an intensity of brew. It brews hotter and has a wider range of temperature. The Starbucks technology is always good; they always have quality products.”
- “Green Mountain’s packaging area is at capacity. Three or four years ago, they had tons of space. Possibly they produced too much at first and had a lot of extras. Maybe this accounted for some expiration dates. But there has been more growth in the past two years, and they are operating at full-speed. I’m not sure about the production crew or management. Given the capacity, Green Mountain may add another facility, make space and be more proficient. That is just an option. Green Mountain is always actively seeking improvements.”
- “I’m not familiar with M. Block [& Sons]; they are in Illinois and not in my territory. I’m in the Northwest and work with [Dillanos](#) and [Lund \[Distribution\]](#).”

The Starbucks Verismo won’t pull a lot of customers from Green Mountain. ... Sales of K-Cups and Keurig machines are growing significantly because of the demand for a higher quality coffee for home use. There will be continued growth in the next six months. I don’t see Keurig slowing down.

*Regional Sales Manager
Specialty Coffee Industry*

➤ Co-founder and editor of coffee buying guide

Verismo will not compete with Keurig and will not affect Green Mountain’s sales, competing instead with Nespresso for the home espresso market. Green Mountain’s agreement with Lavazza for a single-serve espresso maker will also compete with the Verismo when it arrives. The Vue is a response to some consumer dissatisfaction and provides a pod that withstands high pressure and gives a stronger cup of coffee. Off-patent K-Cups may create a problem for Green Mountain, which may have to lower K-Cup prices as a result. Current competitors in the coffee maker and pod market, Sara Lee Corp.’s (SLE) [Senseo](#), [Bunn](#) and Mars Inc.’s [Flavia](#), have not been successful, especially in the paper pod market.

- “Verismo will not affect Keurig or Green Mountain. The Starbucks machine is more espresso-based, a deeper, richer coffee, which is different from Keurig coffee. Although the Verismo may produce some dark coffee, it is designed for a different consumer. With the Verismo, Starbucks is actually targeting Nespresso, not Green Mountain.”
- “Green Mountain is defending themselves against the espresso competition and has been working on their own espresso system. More than a year ago, they announced an agreement with Lavazza, which doesn’t have a single-cup product. This new machine will compete with Verismo and Nespresso, when it finally comes out.”

Green Mountain Coffee Roasters Inc.

- “Off-patent may have a profound effect on Green Mountain. There will be competition from roasters, and Green Mountain will need to try to position themselves better. This is something they are good at. Green Mountain may need to lower pod pricing to retain consumers.”
- “Green Mountain does listen to consumers. They have fine coffees, but there was a flaw in the original pod design from the start. Green Mountain has been working for a long time to produce a stronger cup of coffee, put more coffee in the same pod design. The Vue may be the answer to this; the pod has a different design to hold more coffee and withstand high pressure. The high pressure is needed for flavor extraction. The original pod cannot withstand high pressure and is not super-efficient.”
- “There’s a migration going on. People who are making the K-Cup transition are people who have been drinking canned coffee, Folgers. They aren’t grinding their own beans or experimenting in good coffee. This is a big market. Everyone is drooling over single-serve coffee now. There are real K-Cup enthusiasts. They like the convenience.”
- “If people aren’t satisfied with K-Cup coffee, they will try the Vue’s newer pods. They won’t migrate back to the K-Cup. The Vue is catering to this type of consumer. Then there’s the aspirational consumer, who is being captured by the marketing of high-end coffee.”
- “Nespresso has a dominant, huge position in the espresso market. Their patent lapsed in Europe, and they are now concentrating in the United States. Nespresso has successfully positioned themselves in boutique coffee houses.”
- “Starbucks may compete with Nespresso in the espresso market. But Nestle has smart marketing, and they will have an answer for the Verismo. Italian espresso maker [illycaffè S.p.A.’s] [illy](#) is also starting to open up stores in the United States. This will raise coffee knowledge up a notch, too.”
- “Starbucks is expanding as far as they can to increase market share. They tried to stay up with the high-end market, but now [the company] will not touch the high-end of the home market. Starbucks is concerned with trying to do everything, but they know that the high-end coffee drinkers don’t look upon them favorably. So they target the people who feel cool because they are part of Starbucks, the medium roast market. Starbucks went whole hog marketing [VIA](#), and that coffee is doing well with marketing. But it is wretched, worse than even the pour coffees. It is a high price to pay for pour coffee.”
- “Several roasters, including Bunn, have tried the paper pod open system. Bunn gambled that if they made a good machine with paper pods, the public would follow. But the paper pods didn’t work, and they’ve never taken off. Flavia hasn’t done much. They have more of an office machine. Senseo was a pod competitor, but they have withdrawn their pods from the American market and are now concentrating on Europe. They have terrible coffee.”
- “Supermarkets have been pressed by Dunkin’ Donuts, which is better than canned coffee.”

Off-patent may have a profound effect on Green Mountain. There will be competition from roasters, and Green Mountain will need to try to position themselves better. This is something they are good at. Green Mountain may need to lower pod pricing to retain consumers.

*Co-founder & Editor
Coffee Buying Guide*

➤ Owner of a coffee roasting business selling to offices and other businesses

The Verismo will be similar to the Keurig although it will not affect Green Mountain sales. The K-Cup market is dominated by Green Mountain and there will be little room for competition. The Vue addresses Keurig’s shortcomings. K-Cup prices will decrease after patent expiration.

- “I don’t see how the Verismo will affect the market dramatically. The market is dominated by Green Mountain K-Cups, and new players won’t take away a significant piece of the market.”
- “There have been a few complaints about the original Keurig machines. They only give one-cup servings, with not so much extraction. It is more of a consumer machine. Folks buy the adapter to get a larger cup, a darker roast. That is what the Vue is addressing.”
- “K-Cup patent expiration will drive down pricing. But it won’t be a significant change.”
- “There will be some advancements in technology, but you won’t see a higher degree of change in the new machines. You won’t see a great impact by technology.”

Green Mountain Coffee Roasters Inc.

➤ Author specializing in high-end gourmet coffee market

Starbucks faces a challenge in trying to capture customers in the high-end espresso market. He does not believe the Verismo will provide the experience that espresso drinkers want. In his circle of high-end micro-roasters, he has not heard much interest in the Starbucks machine. He doubts that customers will shift from Keurig to the Vue.

- “I’ve never had coffee out of a capsule that was near as good as at a coffee shop.”
- “Starbucks has the sales and the brand name to move things like Verismo.”
- “In terms of flavor, you need to taste coffee. You need to not taste the machine. In coffee, people love to customize. They want a long pull, they want a double shot. That’s the challenge. ... Big companies go for consistency.”
- “Green Mountain is never going to get high-end users using K-Cups.”

4) STORE MANAGERS

Seven of eight sources said Keurig brewers continue to sell well. All four stores that currently carry the Vue said it will not take sales away from Keurig as mostly new customers will be purchasing the new single-serve offering rather than existing Keurig customers upgrading to it. A higher price and the lack of compatibility with K-Cups are main detractors. Sales of the Vue have been moderate in all four stores. Knowledge of the Verismo was very limited. Sources said Starbucks’ brand name will lead to strong sales and competition for Green Mountain provided it is priced on par with the market leader.

➤ Sales associate, Bed Bath & Beyond, Los Angeles

Current Keurig models are likely to be better sellers than the Vue because they are more affordable and small, making them more practical for everyday home use. The Vue is more likely to be a popular holiday gift or for special occasions.

- “The Keurig [MINI Plus](#), [Elite](#), [Special Edition](#) and [Platinum](#) will sell better than the Vue. It’s still really new, but it is more expensive than the others.”
- “The Vue is more of a big ticket item and will probably sell best as a gift.”

Reporter Observations: The Vue is prominently positioned in a large, free-standing, two-sided display in the center of a wide aisle. A continuous loop video played on a small flat screen above the display extolling the new product’s features and the benefits of Vue Pack technology. One Vue machine was displayed for customers and there were four boxes of visible stock. It appears that both the manufacturer and the store are making a concerted effort to alert customers that K-Cups and Vue Packs are not interchangeable. Small signs posted by Bed Bath & Beyond alerted customers that ‘Only Keurig V-Packs work in the Vue Brewers.’ A warning on the opening of the Vue also stated that only Vue Packs were acceptable. Text on the Vue Pack box warned that they were “not for use in K-cup brewers.” There were four shelves of 16-pack Vue Pack boxes in a wide variety of flavors, priced at \$9.99 to \$11.99 per box. Keurig’s older single brewer machines were displayed in a separate section of the store. There were 24 boxes of the Mini (\$99.99), 21 of the Elite (\$119.99), 15 Special Edition (\$149.99) and 10 Platinum models (\$179.99) stacked almost floor to ceiling. A wide variety of K-Cups were priced from \$9.99 to \$12.99. None of the K-Cup boxes had expired dates. To the right of the Keurig display, Kraft Foods Inc.’s (KFT) [Tassimo](#) models were selling for \$99, \$139 and \$169. To the left of the Keurig display, the Lifetime Brands Inc. (LCUT) [Cuisinart](#) single-serve brewer was priced at \$199.99.

It appears that both the manufacturer and the store are making a concerted effort to alert customers that K-Cups and Vue Packs are not interchangeable. Small signs posted by Bed Bath & Beyond alerted customers that ‘Only Keurig V-Packs work in the Vue Brewers.’

*Store Observation
Bed Bath & Beyond, Los Angeles*

➤ Sales associate, Bed, Bath & Beyond in New Jersey

The Vue has been well-received. New customers are split between purchases of the Vue and older Keurig models, which are less expensive and offer a larger selection of beverages. Existing Keurig customers have not yet been enticed to upgrade to the Vue. The Starbucks machine may offer some competition, with price of the machines being one of the deciding factors.

- “People really like the Keurig. It is selling just as well as a year ago.”
- “The Keurig sells better than the competitors like [Coffee Bean & Tea Leaf](#).”

Green Mountain Coffee Roasters Inc.

- “I have not heard about the new Starbucks machine. It’s possible that it would take away from Keurig sales. I’m sure price will be a factor.”
- “We’ve carried the Vue for a few months. People are buying it—but it is only new customers. Machine sales are split between the Vue and Keurig models. Part of the reason is that there currently aren’t as many flavor options for the Vue. It is also more expensive. Existing Keurig customers aren’t upgrading to the new machine.”
- “Some people are put off by the higher price and the fact that there aren’t as many flavors available, but that will change. I think price is the biggest factor.”
- “We hold in-store demonstrations of the Keurig on Saturdays. It helps to drive sales.”
- “People really like their machines—I haven’t heard any complaints and have never personally seen a return.”
- “We have a ton of K-Cup options. As you can see by the space devoted to the machines and K-Cups, the product is doing very well.”

We’ve carried the Vue for a few months. People are buying it—but it is only new customers. Machine sales are split between the Vue and Keurig models. Part of the reason is that there currently aren’t as many flavor options for the Vue. It is also more expensive. Existing Keurig customers aren’t upgrading to the new machine.

*Sales Associate
Bed, Bath & Beyond, New Jersey*

Reporter Observations: There are two center-aisle displays showing the Keurig machines. The first prominently displays the Vue (\$249.99), a dozen beverage options and a beverage carousel for coffee packs. The second is shared with Coffee Bean & Tea Leaf products, which had a product video running. It holds older Keurig models—the Elite, Platinum and Mini. Two entire aisles of the kitchen department are devoted to K-Cups with a huge variety of flavor options and inventory.

► Sales associate, Bed, Bath & Beyond in the San Francisco Bay Area

The Vue has sold well initially, but is not likely to take sales from Keurig and may not approach Keurig’s popularity. Most Vue purchases have come from customers new to Green Mountain and the single-serve market. The source could not recall anyone buying the Vue that already owned a Keurig machine. He said there is not much of a difference in the quality of the finished product between the Keurig and Vue brewers and that the excitement for Keurig when it was released is much greater than the current enthusiasm and fanfare for the Vue.

- “We’ve had the Vue for over two weeks. We sold out of our first shipment and just got our second in recently. We’ve got five on display and two more in storage.”
- “Keurig owners won’t buy it. They are not upgrading to the Vue.”
- “Everyone I have seen buy the Vue is a new customer. That’s who is going to buy this.”
- “One of the main complaints I hear about the Vue is that it doesn’t have the filter where people can use their own coffee, like the [My K-Cup](#) for the Keurig. They haven’t come out with it yet. I’m not sure if they are going to.”
- “Keurig was a big deal when it came out. This is not a big deal right now.”
- “The coffee doesn’t taste much different. It’s maybe a couple degrees hotter, but not much.”

Keurig owners won’t buy it. They are not upgrading to the Vue. ... Everyone I have seen buy the Vue is a new customer. That’s who is going to buy this. ... Keurig was a big deal when it came out. This is not a big deal right now.

*Sales Associate, Bed, Bath & Beyond
San Francisco Bay Area*

Reporter Observations: The Vue is on display in a center aisle occupying prime real estate with a large sign hanging down from the ceiling and a video display. The five boxes on display all have a sticker showing they were packed in April 2012. The Keurig display is off in a corner with the other single-serve machines. There are two to three times as many Keurigs in stock for each model compared to the five boxes of the Vue. There were two racks filled with 25-30 different K-Cup varieties and only one was on sale, marked down from \$12.99 to \$9.99. The majority of K-Cups has 18 pods and sells for \$11.99, except the Starbucks K-Cups, which sell for \$14.99. By contrast, the Vue Cups have only 16 pods per package and sell for \$11.99. Bed Bath & Beyond boasts of free home shipping of K-Cups.

Green Mountain Coffee Roasters Inc.

➤ **Manager, home electronics department, Kohl's near Chicago**

Brand name recognition and pricing similar to Keurig machines will help Starbucks expand to single-serve coffee makers. The Vue has been in [Kohl's Corp.](#) (KSS) stores for a few weeks. Sales and interest have been slow. Customers who enjoy new gadgets might purchase the Vue, but the lack of compatibility with Keurig and K-Cups will detract current owners from upgrading. Keurig sales are up slightly since last year and most sales occur when they are discounted. Expired K-Cups are returned rather than being discounted in the store.

- "Starbucks could take some of the Keurig business. They have their name going for them."
- "I have not heard anything about Starbucks introducing a machine like Keurig. That would be interesting. We have their coffees of course and their K-Cups do very well."
- "We have a Cuisinart machine that is similar to the Keurig. It sells ok. Most people buy the Keurig because they know the brand but the Cuisinart probably works just as well. It is all about the brand name. That is why Starbucks might do well since all know their name."
- "The Starbucks machine has to be in line with what the Keurig costs. Otherwise, people won't buy it."
- "We have had the Vue machine for a week or two. We have not sold any that I am aware of and no one has asked me any questions about it."
- "As far as I can tell, there are a few features that the Vue has that the other Keurigs don't have. But with different [pods], I am not sure how many customers are going to run out and buy this, especially since it is a more expensive machine."
- "The Vue will appeal to people who want the next new thing and like all the new gadgets. They will buy it just because it is new, even if they already have one."
- "Keurig sells about what it did last year; maybe a little more. It does pretty good. We don't get many returns on them."
- "We don't sell too many Keurigs unless they are on promotion. Now a few models are on sale but often, everything in the line is discounted together."
- "The Donut Shop K-Cups do just as well as the Starbucks' because people think it tastes like Dunkin Donuts coffee."
- "I put the sale coffee on that shelving unit because corporate told me to do it that way. They tell me how to set the floor and exactly where to put what product and where to set the floor."
- "When K-Cups expire, it is our policy to send them back. We don't discount them when they are out of code."
- "The Keurig rep told me we have to put the dates on K-Cups because they are food but that the coffee is still good after the expiration date."

With different [pods], I am not sure how many customers are going to run out and buy [the Vue], especially since it is a more expensive machine.

*Manager, Home Electronics Dept.
Kohl's, Chicago-area*

Reporter Observations: There is no signage for Keurig around its product at this store. There are three six-shelved racks in the center of the aisle filled with K-Cups. One rack is almost entirely devoted to Starbucks K-Cups. On one side of the rack, there is a freestanding pile of Keurig machines with no signage either. This pile has two Special Edition machines, seven Elite and 13 Mini. There is another table with 11 Platinum, 18 Mini and four Vues for sale. The Vue boxes say "Date Packed: 3/2012." There are nearly 50 Vue Packs for the Vue and three Vue Pack carousels. They have several machines on display to demonstrate. No customers looked at the Keurig machines or products during the visit on a Monday afternoon.

➤ **Sales associates, home electronics department, Carson Pirie Scott outside Chicago**

If reviews are good for Verismo and the quality is comparable to Keurig, it will do well and take business from Green Mountain. He expects to get the Vue shortly as displays are being prepared for its arrival. Keurig machines sold out at Christmas and Green Mountain did well in the first quarter as they remain a popular gift item. During a typical shift, he sells one machine and five to ten K-Cups. Sales are strongest during promotions and coupon events.

- "I have not heard about Starbucks releasing a similar product. How well it does depends on the reviews. If the reviews are good, it should do well and take some of Green Mountain's business."

Keurig sells the best when it is on sale or we have a good coupon event. It should be going back on sale in a few weeks.

*Sales Associates, Carson Pirie Scott
Chicago*

Green Mountain Coffee Roasters Inc.

- “If the Starbucks machine is as good of quality as the Keurig and is more affordable, it will for sure give Green Mountain a bit of a run. Everybody knows Starbucks and most people like Starbucks. It is a no brainer that their products will sell.”
- “We did run out of Keurig machines after Christmas. We got real low on K-Cups, too. We did not get restocked until late January and stock is solid now.”
- “We did well with Keurig first quarter. While sales were not as strong as the holidays, they were still solid.”
- “I sell at least one Keurig machine every time I work and I sell five to ten K-Cups as well each shift.”
- “We just put up two new displays for Keurig today. One has Vue at the top.”
- “We don’t sell imitation K-Cups here.”
- “I have not had any customers ask about the new machine. I am not sure they know about it yet.”
- “Most people that buy Keurigs are giving them as gifts. They sell as wedding presents all the time and are popular as housewarming gifts.”
- “The [Donut Shop K-Cups](#) are among the most popular. We are actually sold out of them now. People also like the Chai Tea, and the coffee blends that are not too robust.”
- “The most popular Keurig machines are the Elite and the Special Edition. The Mini does ok but not as well as the bigger machines. The Platinum is the most expensive one so people generally veer away from it because of the cost.”
- “Keurig sells the best when it is on sale or we have a good coupon event. It should be going back on sale in a few weeks.”

Reporter Observations: The Keurig display is a predominant fixture in the home electronics department, immediately off the escalator. There are four machines on display and both the Special Edition and Elite models are deeply discounted. The Special Edition is \$129 from \$215 and the Elite is \$103.20 from \$172. There are 20 machines available for sale—two Platinum, four Elite, four Special Edition and 10 Mini Plus. A center table display with a wall of K-Cups, fully stocked, is behind it. The store had just finished putting up the new Keurig Vue displays, which include two seven-foot, stainless steel, five-shelved displays. There is no Keurig product on this display.

► **Assistant manager of a Safeway Inc.’s (SWY) [Dominick’s](#) in Chicago**

Starbucks’ brand name and recognition is so strong, its single-serve machine offering will draw customers away from Keurig machines. His store has carried Keurig for only four months with steady sales that will grow throughout the year because of increased awareness. The store does not have much room to carry the brewers so they keep a low stock and are currently sold out of the Classic B44 machine, the only model they carry. K-Cup packs sell occasionally, about one every other day.

- “I have not heard anything about Starbucks introducing a machine. It would definitely take some business from Keurig. Starbucks products do very well and almost everyone knows and buys their brand. It seems natural that they would make coffee makers since they are the top dog in the coffee business.”
- “The best selling K-Cups are the Starbucks and [J.M. Smucker Co.’s/SJM] [Folgers varieties](#). Consumers highly identify with those brands.”
- “We got the Keurig in at the beginning of the year. For a product that seemingly came out of nowhere, it does pretty well here. We put it on the back end cap when we got the product in the store.”
- “Since we got it four months ago, Keurig sales have been growing a little every month. More and more people are getting to know about it. It will gain in popularity this year rather than slow down.”
- “Keurig is not performing well at every store we put it in. A couple months ago, they shipped over all the K-Cup stock from a nearby store where they were not selling.”
- “We only carry one type of Keurig machine—the [B44 Classic](#) priced at \$119.99. There is only room for two or three on the shelf so we don’t stock many.”
- “We are currently sold out of the Keurig machine. We had one last

“Since we got it four months ago, Keurig sales have been growing a little every month. More and more people are getting to know about it. It will gain in popularity this year rather than slow down. ... Keurig is not performing well at every store we put it in. A couple months ago, they shipped over all the K-Cup stock from a nearby store where they were not selling.”

*Assistant Manager, Dominick’s
Chicago*

Green Mountain Coffee Roasters Inc.

week so it must have sold over the weekend. We should have more in a week or two, at the most.”

- “I would say I sell a K-Cup box every other day.”
- “We might not sell as many K-Cups as other retailers like [Target](#) [Corp./TGT] or [Wal-Mart](#) [Stores Inc./WMT] but we do ok with it, especially considering it has not been on the floor all that long.”

Reporter Observations: There are two areas displaying Green Mountain products. In the coffee aisle, there is a seven-shelf display of various K-Cups. Many are on sale for \$8.99 from \$9.99. The [Twining’s Tea](#) flavors have signs saying “new low price \$6.99” from \$8.59. The store carries six varieties of the Starbucks K-Cups. At the back of this aisle is the Keurig end-cap. There is space for two or three Keurig machines.

➤ Sales associate, Bloomingdale’s in New Jersey

Sales of the Keurig machines are starting to slow down, but pick up when the machine is put on sale. Demonstrations also help to boost interest. Macy’s Inc.’s (M) [Bloomingdale’s](#) carries the K-Cups, but they aren’t a big seller and the associate assumes most customers choose to purchase them elsewhere.

- “The Keurig does well—but I’d say machine sales are starting to slow down a bit. It goes on sale from time to time and that’s when we sell the most. We do demonstrations for customers and that’s always a big hit.”
- “People do buy the K-Cups, but they aren’t a big seller for us. I would say sales are down. They are available so many places now. I see them at the grocery store. I would assume that is where most people make their purchases.”
- “I have not heard anything about the Starbucks’ machine or if we will carry it in the store. It is possible that Starbucks will be competition for the Keurig machine. People look for quality, functionality and price.”
- “We do not have the Vue.”
- “I have never heard any complaints about the Keurig machines.”

The Keurig does well—but I’d say machine sales are starting to slow down a bit. It goes on sale from time to time and that’s when we sell the most. ... People do buy the K-Cups, but they aren’t a big seller for us. I would say sales are down.

*Sales Associate, Bloomingdale’s
New Jersey*

Reporter Observations: The coffee machines are displayed at the rear of the kitchen department. Keurig machines are displayed on the aisle along with the Cuisinart single-serve coffee makers. None of the machines were on sale. K-Cups line the wall at the rear of the section. There were no customers during the Wednesday morning visit.

➤ Sales associate, Macy’s in New Jersey

Keurig has a strong lead in the single-serve coffee market, consistently outperforming the competition. Customers like the ease and convenience of the machine and the variety of options offered by the K-Cups. A Starbucks machine may take away some sales, but Keurig has a strong position and carries Starbucks coffee for people who like their beverages. Most customers are expected to stick with Keurig.

- “The Keurig is a strong seller. People like the convenience and ease of the machine. There is little to clean up and they can make a single cup at a time. They also like the different options available with the K-Cups. We sell the K-Cup customizable filter that enables the use of their own coffee as well.”
- “Sales have been fine. Keurig outsells the competition by 10 to one. We carry a Cuisinart single-cup machine, but that doesn’t have anything like the K-Cups, which enable variety and a mess-free system. We also carry the Coffee Bean & Tea Leaf machines. They don’t do as well.”
- “I haven’t heard about the Vue or the new Starbucks machine.”
- “I think Keurig will stay the leader in spite of Starbucks making the machine. Keurig has the Starbucks K-Cups for customers who like that coffee. Starbucks isn’t known for their equipment, but Keurig already has a strong standing in this area.”
- “I’m surprised to hear that the Vue uses something other than the K-Cups. It seems strange that they wouldn’t make it compatible with their other products.”

Reporter Observations: A large “Coffee Corner” display greets customers at the top of the escalator to the home department. Keurig is by far the largest presence with four models—the Elite, B60, Mini Brewer and Platinum. All four were on sale for approximately 30% off. The display also held two Cuisinart single-serve machines—[Coffee on Demand](#)

Green Mountain Coffee Roasters Inc.

and the Single-Serve brewing system. Coffee Bean & Tea Leaf machines were displayed nearby in a smaller center aisle display. K-Cups were arranged around the “Coffee Corner” display. They weren’t as prominent as the machines. No customers visited the display during the Wednesday morning visit.

5) CUSTOMERS

Seven Keurig owner sources are happy with their Keurig machine and would not switch to the Vue or Verismo. Concerns range from the higher price, to the size of the machine compared to the Mini, and most importantly, the lack of ability to use K-Cups with the Vue or Vue Packs with the Keurig. Our eighth source, who did not previously own a single-serve machine, owns the Vue and is very happy with it, though she acknowledges it is not for everyone based on price and its larger size. Knowledge of Verismo was limited, though sources said they could get Starbucks flavors in K-Cups, making them question the need for Verismo. K-Cup purchases remain consistent, including one source who said her purchases have increased 10% from a year ago.

➤ Early 40s woman in Los Angeles

A self-described coffee fanatic, she is very happy with her Keurig Elite, which she purchased over a year ago. She noted that friends and clients to whom she serves coffee seem very interested in the machine, asking about how it works and the cost. The source was aware of the new Vue machine but said she prefers the smaller footprint of her current Keurig Elite and had no desire to switch. She was equally uninterested in Starbucks’s new Verismo single-serve machine.

- “I’ve had my Keurig Elite machine for about a year. It was my first. I love this machine. Before that I had a regular Mr. Coffee brewer.”
- “I’m purchasing about 10% more K-Cups these days. I guess I’m just consuming more coffee daily.”
- “I enjoy offering a fresh brewed cup to clients when they come to my studio. A lot of them, and friends also, ask me about the machine, so maybe there’s a trend for it.”
- “They want to know if it’s easy to use, how expensive it is to keep buying the K-Cups, if you can use your own coffee instead, things like that. They seem pretty impressed.”
- “To me the price for K-Cups is reasonable compared to the price of a cup at Starbucks. I can buy a pack of 18 for \$12, that’s about \$0.67 cents a cup, so it’s a good deal for a strong cup of coffee.”
- “I probably stock up on my K-Cups twice a month or so because I buy two or three packs each time.”
- “I didn’t know that Starbucks is coming out with a new single-serve machine. I’m happy with the Keurig I have though, so I don’t really have any reason to switch.”
- “I saw Keurig’s new single-serve machine on display. It’s pretty, but why would I pay \$249 when I already have a Keurig Elite that works just fine, and has a smaller footprint on my counter? The Vue is really big for a single-serve machine.”
- “K-Cups, Vue Packs. You can’t use this with that. It gets complicated that they’re not interchangeable. I think if you get used to using something, it’s kind of hard to switch unless your old machine breaks down and you’re then free to try something new.”
- “I don’t buy imitation K-Cups. You never know what you’re getting with the knock-offs.”
- “The K-Cups I buy [at Bed Bath & Beyond] are never beyond the expiration date. I do check that.”
- “I don’t buy my K-Cups online because I enjoy coming to Bed Bath & Beyond just to shop. But I just noticed that the store will mail your order of K-Cups to you if you set that up, so I might do that.”
- “The price of K-Cups has stayed pretty regular, at least in the year I’ve been buying them. Sometimes they’ll discount one or two flavors, but not very often.”
- “If the patent expires on the K-Cup, would that lower their price? That would be nice. I guess I’d buy even more of them if the price went down.”

I saw Keurig’s new single-serve machine on display. It’s pretty, but why would I pay \$249 when I already have a Keurig Elite that works just fine, and has a smaller footprint on my counter? The Vue is really big for a single-serve machine.

*Keurig Customer
Los Angeles, CA*

Green Mountain Coffee Roasters Inc.

➤ Los Angeles man in his 50s

He was purchasing the Keurig Mini for his daughter who is a high school senior and will be heading off to college in the fall. He and his wife considered this single-serve coffee brewer a perfect birthday/graduation gift. The small footprint of the Keurig Mini is ideal for use in her dorm room. He was an infrequent buyer of coffee machines and products and was unaware of Keurig's or Starbucks' new single-serve machines. His primary concern for this purchase was the machine's reliability and the expense of buying K-Cups that his daughter would incur.

- "My wife and I researched single-serve coffee machines online and decided that the Keurig MiniPlus would be the right size for her dorm room. She loves coffee so we thought this would be a great graduation gift for her and her birthday is around the same time."
- "I went to Bed Bath & Beyond first, then came here to see if Target had it for less. The MiniPlus is \$99 at both places, but I'm here now so I'll buy it from Target."
- "When I asked the sales person at Bed Bath & Beyond where the single-serve coffee machines are, he first showed me the Vue machine. I said, 'Oh, no! That's way too expensive and big.' Then he showed me the other section and that's where I saw what we needed. Ninety-nine dollars is a reasonable price for a single-serve machine, and I hear that Keurig has a good reputation for reliability."
- "She'll probably have to buy the K-Cups online, unless they sell them in the campus store because she won't have a car."
- "Our research online into this said something about Starbucks coming out with a new single-serve brewer, but it wasn't available in the stores yet. The Starbucks model will probably be nice—they always put a lot of thought into their brand, but we just decided that the Keurig MiniPlus would be the right price and size for her."

When I asked the sales person at Bed Bath & Beyond where the single-serve coffee machines are, he first showed me the Vue machine. I said, 'Oh, no! That's way too expensive and big.'

*Keurig Customer
Los Angeles, CA*

➤ 60s woman in Los Angeles

She bought a Keurig Vue V700 in late March as soon as it became available because she and her husband wanted a robust single-serve machine that could brew several single cups quickly. She did not previously own a single-serve machine. She likes all the machine's amenities and praises its 74-oz. water reservoir that enables her to brew several cups without needing to refill after each use. She doesn't mind using Vue Packs and likes the variety of flavors offered.

- "I bought this Vue from Bed, Bath & Beyond the first time I saw it. I think it had just come out and I fell in love with it. The price was a little steep, but with the Bed, Bath & Beyond coupon for 20% off, I got it for just over \$200. It was worth it."
- "I had seen single-serve brewers but they were all too small. We needed a machine that could produce a bunch of single-serve cups quickly without us having to wait too long or work too hard at it."
- "The Vue has a lot of special features that I like. I can brew different sizes. I can customize how hot I want it, and I can just click on 'Strong' when I want a knock-your-socks-off cup."
- "There's also this air infusion feature that puts an added layer of froth on the top now."
- "I feel like a barista! I enjoy customizing drinks for myself, and the people I'm making coffee for."
- "This single-serve coffee market is all about convenience. If I have to work too hard at it, I'm going to go back to my old drip coffee brewer."
- "If they make it convenient for me to buy the V-Packs at the stores where I shop, and online, that'll keep me with this brand. Actually, my \$250 investment will keep me buying the V-Packs even if it's not all that convenient, at least until the machine quits on me."
- "I didn't know Starbucks is coming out with a single-serve machine, but it probably won't be big enough to make several cups quickly. We're content with the Vue and we get a lot of comments on it from other coffee-lovers among our friends."
- "I'll probably stock up on enough V-Packs to last us a month or so. I like having a variety of flavors in the house so we can pick and choose what we're in the mood for."
- "The V-Packs cost around \$12 but with the Bed, Bath & Beyond coupons for 20% off, the price is not that bad."

The Vue has a lot of special features that I like. I can brew different sizes. I can customize how hot I want it, and I can just click on 'Strong' when I want a knock-your-socks-off cup.

*Vue Customer
Los Angeles, CA*

Green Mountain Coffee Roasters Inc.

- “I like the House Blend Vue pack and the milk-added Vanilla Latte and Café Mocha.”
- “I can’t see the Vue becoming a big trend for everyone. You’ve got to be a real coffee purist and have the money for the initial purchase, and then have enough money to keep buying the V-Packs. It’s a great machine, but not a household essential—more like a treat for folks who have money to blow on a pretty toy kind of thing.”

➤ New Jersey woman in her early 40s

Existing Keurig customers are unlikely to switch to the Starbucks machine or the new Keurig model. Competition for K-Cup sales is likely to come down to price. The Keurig is a luxury item with the per-cup cost working out to be roughly equivalent to purchasing a cup of coffee at a coffee shop. The reward is convenience for consumers who want a single cup of coffee at home.

- “I am not going to go out and buy a new Keurig or other single-serve coffee machine. I doubt other existing customers will either. It may take away some new customers.”
- “Starbucks certainly has a lot of exposure, and I’m sure will be able to market their machine well. That said, I wonder how many Starbucks customers will walk into a store and purchase the machines? I know they have carried espresso makers in the past—but I don’t know of anyone who has purchased a machine at a Starbucks.
- “Starbucks’ in-store customers are paying for the convenience and experience of going to the store to purchase a pre-made cup of coffee while they are out doing their daily routine. Even though Starbucks has a huge presence I wonder if people will buy the machines. It may come down to cost—for both the machines and the cups.”
- “The fact that you can control the strength of your coffee is a good new feature in the Vue.”
- “The Keurig is definitely a luxury item. It is convenient for someone like me that wants a single cup of coffee in the morning, but you pay for that convenience. The cost is roughly equivalent to buying a cup at a coffee shop—but I don’t have to make the stop in the morning.”
- “Price is an issue, but I overlook that for convenience. I stock up when I see the K-Cups on sale.”
- “My friends who are real coffee drinkers or who are couples, all seem to make their coffee by the pot. I don’t know that the Keurig makes sense for someone who needs more than a single cup of coffee.”
- “I enjoy the variety of products. I have a small selection on hand for entertaining, and I buy the hot chocolate for my son.”
- “Initially I had some problems with the machine. The original one I purchased stopped working within a few weeks. I was sent a replacement that made coffee with a very ‘tinny’ flavor. I had to run five gallons of water and vinegar through it a cup at a time. Now it works fine.”

➤ A retired married couple shopping at Kohl’s in Chicago

They would consider purchasing the Starbucks machine if their Platinum Keurig machine should break as long as it is as high quality as Starbucks coffee. They purchased their Keurig in December 2011 at Costco for \$150. They did not know of the Vue machine and would not consider it due to the higher cost and because it does not use the traditional K-Cups. They purchase the Starbucks brand K-Cups most often. They commented that between the cost of K-Cups and purchasing bottled water, using the Keurig can be expensive for heavy coffee drinkers.

- “My husband likes the Starbucks’ coffees the best. They are high quality. If they came out with a machine like the Keurig, I would expect it to be as good of quality as their coffees and do well, too.”
- “If our Keurig breaks, we would consider a Starbucks machine. We drink their coffee all the time so why not brew it in one of their machines?”
- “Since we just got our Platinum, we are not interested in this new Vue. Plus it doesn’t use the K-Cups like our other one. That is kind of silly. They should use the same size cup. We would have to get all new accessory stuff.”
- “The Keurig is popular. We have a few friends that have and like it as much as we do. It is so convenient and easy to use. And, there is no clean-up, which is great.”
- “We didn’t know about the new Vue machine until today. It costs almost double what we paid for our Platinum. That is high, even on sale, at \$249.”

“Since we just got our Platinum, we are not interested in this new Vue. Plus it doesn’t use the K-Cups like our other one. That is kind of silly. They should use the same size cup. We would have to get all new accessory stuff.”

*Keurig Customer
New Jersey*

Green Mountain Coffee Roasters Inc.

- “You can get K-Cups at Costco but it is a big pack with a few flavors and you have to like those flavors. We prefer to get what we like best on sale. We get them here at Kohl’s, Target and sometimes Costco.”
- “My husband’s favorite K-Cups are the [Starbucks French Roast](#) and [House Blend](#). That is what we are purchasing today. They are on sale so we thought we’d get a couple.”
- “Using the Keurig can get expensive, especially if you aren’t getting K-Cups on sale. I am also spending more money on bottled water since they recommend you use purified or spring water. We follow their advice.”
- “We have no issues with our Keurig. We both use it without any problems. We would recommend it to friends and family without hesitation.”
- “I did save my regular coffeemaker for entertaining. The Keurig is not good for those times when you need a pot of coffee. It would be too costly to brew a whole pot of coffee in the Keurig.”
- “I sometimes do a K-Cup hot chocolate in the evening, too.”

➤ A mid-60s woman in Knoxville, Tennessee

She is not interested in purchasing a Starbucks coffee maker, as she is content with her 2-year-old Special Edition. The Verismo must be priced competitively to Keurig to gain share. Compared to two years ago, Keurigs have become much more popular among her friends. She purchases 90% of her coffee from Green Mountain’s website. She saw an online ad for Vue but is not interested in purchasing the new technology.

- “I would not buy a Starbucks machine if my Keurig was working. Maybe people who don’t have a Keurig already might get it because they trust the Starbucks name. It would certainly have to be competitive in price to gain on Keurig.”
- “I would buy another Keurig but not until something happens to this one. I am not one to rush out and get the new technology so I am not too interested in the Vue.”
- “It doesn’t bother me that Vue cups aren’t compatible because I don’t plan on getting one.”
- “Around here, more people are starting to get Keurigs. When I got mine two years ago, there was only one house where I play cards that had one, and now, half the houses I play cards at have a Keurig.”
- “I see Keurig only getting more popular. Wal-Mart started carrying K-Cups last year so the general public is starting to buy them more.”
- “I belong to Green Mountain’s [Café Express](#). You get a discount on K-Cups and I get 90% of my K-Cups online.”
- “I like strong, bold flavors and my favorite K-Cups are [Double Black Diamond](#) and the [Sumatran Reserve](#). They are the only strong enough ones I have ever found.”

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*Keurig Customer
Knoxville, TN*

➤ 70-year-old woman in Chicago

Keurig business will not be affected by Starbucks’ Verismo. Keurig is becoming more popular in homes and businesses. She is not interested in the Vue as it is too big. If her Keurig Mini broke, she would simply buy a new one. She purchases two to three K-Cup packs monthly, mostly on sale at Kohl’s and has noticed a slight price increase in the last year.

- “I don’t think a machine from Starbucks will affect Keurig’s business. There are already similar machines on the market, and I don’t think they have taken anything from Keurig.”
- “Everybody knows Keurig and the K-Cups, and people are going to go with the brand they know for this type of coffee maker.”
- “The announcement of Starbucks’ new machine will not affect my Keurig purchases at all. I have absolutely no plans to buy it even if my Keurig would break. I would buy another Keurig.”
- “Keurig is getting more popular than it was.”
- “I would not get the Vue with the different size cups. I would stick with the same Keurig I have. I would buy another Mini because I don’t want to use up counter space to be able to make one cup of coffee.”
- “I buy K-Cups most often at Kohl’s and sometimes at Costco or [Wal-Mart’s] [Sam’s Club](#) or Bed Bath & Beyond.”
- “I do not buy imitation K-Cups. I didn’t even know that they are available.”
- “Prices of the K-Cups have gone up a little in the last year. But, I mostly buy them on sale or I go to Bed, Bath & Beyond and use one of their coupons. Bed, Bath & Beyond has an awesome selection of K-Cups. They have the best selection, in fact.”

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- “We have a bigger Keurig at the doctor’s office I work at, and I know they have one at their other two offices, too.”
- “I bought a Keurig Mini for my daughter’s house. They had a Cuisinart and it was too big on the counter. I got it on sale at Kohl’s. I really liked it so the next time they went on sale, I got one for my house.”
- “How often I buy K-Cups depends on where I buy them. Sometimes, I get them at Costco or Sam’s Club and there are 80 in a box so that is one cup a day for three months. But on average, I buy two to three boxes a month of K-Cups. I always get coffee or dark hot chocolate, never tea.”

➤ Early 50s woman in Connecticut

She values the quality of the coffee and other hot drinks that she finds with Keurig and K-Cups, and expects that she will stay loyal to the brand. She is happy with her Keurig and is not interested in upgrading to the Vue, nor will she consider a Starbucks machine. Her usage has remained constant over the last three years.

- “I’m happy with my machine and would not purchase the new Keurig or a Starbucks machine.”
- “My usage has been fairly even over the last three years. I use it a bit less during the summer.”
- “We use a coffee pot to make our morning coffee.”
- “I love my Keurig, but I don’t use it every day. I use it for guests—it’s great that I can give them a variety of options for a hot drink. We use it for parties, and sometimes I use it in the evening to make a cup of tea or decaf for myself.”
- “I don’t think I would switch to an off-brand substitute for K-Cups. We are fairly picky about our coffee. Price is important, but so is quality. With K-Cups we are getting brands that we know. We’ve been happy with the Green Mountain coffees, and we buy the Starbucks and [Celestial Seasonings K-Cups](#) as well.”
- “I don’t pay close attention to the prices of the K-Cups. I buy them at Bed, Bath & Beyond with the coupon for 20% off.”
- “I know using the Keurig is a more expensive way to make coffee, but I like the convenience.”
- “I have rarely experienced a problem getting the type of K-Cups I am looking for. The only issue was looking for hot chocolate in the spring.”

Secondary Sources

Of ten additional sources covering topics relating to Keurig, K-Cups, Vue and Verismo, the most interesting is a research note saying Amazon is encouraging unlicensed K-Cup producers to sell on Amazon.com before patents expire, signaling an aggressive attempt by Amazon to establish itself as a major player in the single-serve market. Other sources include reviews on the Vue, growth of quality K-Cup knock-off Rogers Family Company, reviews of Verismo, which is expected to take on Nespresso more than Green Mountain, an industry survey saying daily coffee drinking is increasing especially in the home, as is the single-serve trend, and finally, an article on Starbucks opening a concept store in Amsterdam.

➤ April 10 Detwiler Fenton [research note](#)

Amazon.com is actively seeking unlicensed K-Cup producers to sell their less-expensive knock-off K-Cups online as a strategy for Amazon to become a larger presence in the single-serve coffee market ahead of GMCR’s September patent expiration.

- “We are hearing of more and more instances of non-licensed K-Cups planning to launch in retail channels. Checks suggest that by September we will see dozens of K-Cup brands flooding the category, potentially confusing the consumer from so many choices. In light of this wave of competition coming this fall, some roasters appear even more eager to jump into the market ahead of GMCR’s patent expiration, even if this results in GMCR filing a lawsuit for patent infringement.”

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Detwiler Fenton Research Note

Green Mountain Coffee Roasters Inc.

- “Case in point, [Brooklyn Beanery](#) has plans to release for sale non-licensed K-Cups through Amazon.com in the middle of the month. Priced at \$20/36-count (\$0.56/unit), the 12 SKUs [already present on-line](#) are priced at a significant discount to licensed K-Cups on Amazon (\$0.66+ per unit) but slightly ahead of the least expensive option we have seen - [the Rogers Family OneCup](#), now selling for \$17.49/36-count (\$0.49/unit) on Amazon.”
- “Despite the strong likelihood that Brooklyn Beanery's launch next week will lead to a Keurig lawsuit, similar to their lawsuits pending against [Sturm Foods](#) (THS) and Rogers Family, the upside benefit from being an early entrant into what is becoming a very crowded space apparently outweighs the risk of incurring legal expense. But Brooklyn Beanery is not alone, as we are hearing of more examples of firms just about to kick-off manufacturing. Feedback suggests that this ramp-up is being driven at least partly by Amazon.com (AMZN), which is actively courting roasters to aid in the build-out of its online presence in one of the hottest grocery categories in the market today - K-Cups.”
- “We see this wave of online competition growing in months to come, leading to more downward pressure on retail K-Cup pricing across sales channels - both online and brick n' mortar. While many of the brands launching on Amazon.com may never make it to broader, brick n' mortar distribution, retailers and consumers will have more choice and assortment with lower entry-level prices, which will pressure manufacturers to keep pricing and discounts competitive with Amazon's price points.”
- “Furthermore, feedback suggests that as more non-licensed brands build credibility, scale and a following among consumers, office coffee service (OCS) distributors may be better positioned to challenge GMCR's stringent exclusivity requirements.”
- “Recall several weeks ago that GMCR reminded OCS distributors that selling non-licensed K-Cups would be a breach of their distributor agreement leading to termination of their agreement with GMCR/Keurig. If enough non-licensed roasters enter the category with a broad assortment comparable to GMCR's assortment, distributors may consider challenging GMCR's exclusivity.”
- “Valued at over \$4B, the US OCS channel drives approximately 10%+ of GMCR's sales today. OCS was also the channel where GMCR got its start, building a following among commercial customers to a level that allowed the firm to branch out into retail.”
- “As non-licensed brands enter the K-Cup category, we see GMCR facing more pressure competitively on price, assortment and penetration through channels which have remained insulated from competitive pressures up to this point. Even with coffee costs in decline, we remain concerned that GMCR will face margin pressure, as the firm may have to invest ‘margin’ to drive volumes across retail channels.”

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Detwiler Fenton Research Note

➤ April 14 CNET Vue [review](#)

The Vue gets a favorable review for its flexibility and customize-ability, while concerns center around price and lack of compatibility with Keurig and K-Cups. He does expect sales to pick up as prices drop and flavor options expand.

- “A world without K-Cups? The horror! While a K-Cupless world may not befall the caffeine-addicted anytime soon, single-serve coffee giant Keurig recently debuted a next-gen successor called [Vue](#) that could warm the hearts and hands of geeky java lovers.”
- “We checked out a Vue test unit at a Bed Bath & Beyond, the first retailer to carry the new [V700 brewer](#) (other big retailers will sell it soon). Keurig's pricey \$249 Vue roaster looks similar to existing K-Cup machines, and bears many familiar components, but it doesn't take long to spot the differences.”
- “The Vue sports a color touch screen with menus for selecting the type of Vue pack inserted. Using that menu, one can choose from eight brewing sizes or adjust temperature, water pressure, timing, and airflow settings. Keurig's latest take on home coffee brewing supports the creation of frothy cafe beverages, such as lattes and cappuccinos, by using a separate coffee and frother Vue pack for each drink (the packs are partially recyclable).”

- “Those interested in Vue should prepare to spend, spend, and spend some more (though the per-cup price does work out to a reasonable 75 cents). Standard 16-count Vue packs cost \$11.99, but the cafe beverage Vue boxes contain only eight drinks (eight coffee and eight frother packs). Since the whole system debuted just recently, [Vue pack drink selection](#) runs a bit slim (only several dozen types available) compared with the hundreds of K-Cups out there.”
- “If you already own K-Cups, they're not compatible with the Vue brewer, and vice versa. Aside from complaints about price, the lack of backward-compatibility is one of the drawbacks mentioned in early mixed reviews on the Keurig site (yes, we live in an era where backward-compatibility for coffee must be taken into account). Some early consumer reviews also express distaste over several of the frothy cafe beverages.”
- “I'm not quite ready to drop my working Keurig B70 Platinum K-Cup system for a Vue just yet, despite its expanded drink offerings and fancy interface. However, as Vue machines drop in price over time and drink offerings continue to expand, I expect to see the transition from K-Cup to Vue occurring in many homes and workplaces.”
- “In related news, a [Vue V1200](#) office model arrives later this year, which, according to Keurig, utilizes RFID technology to allow ‘the Vue pack to communicate the exact brewing recipe for that particular beverage to the brewer.’”

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CNET Vue Review

➤ March 7 Single Serve Coffee.com [review](#)

An in-depth and favorable review of the Vue, Vue Packs and the brewing process, this review describes the improvements Green Mountain made from the Keurig and concludes the new machine is an upgrade over the standard. The review also reinforces Keurig as a strong viable option for those not looking to spend the money on a new machine. Two reader comments stood out: one barely noticed a difference in the final coffee product from the Vue compared to the Keurig, and one was more positive about the Vue and its improvements over the Keurig.

- “The [Keurig Vue V700 Single Cup Brewing System](#) uses [Keurig's Vue Packs](#), and is a single cup brewing system capable of making coffee, tea, hot cocoa, and even lattes and cappuccinos. The Keurig VUE brewer can only use Keurig Vue Packs, and not K-Cups, which are meant for older Keurig systems. Also unlike the older K-Cups, pulling off the top of the foil lid with the filter attached to a VUE Pack one can recycle the cup part of a VUE pack.”
- “The Keurig Vue V700 Single Cup Brewing System was designed based after years of feedback about the their K-Cup brewing system. The main complaints of the K-Cup system were:
 - Brew Temp
 - K-Cups can not [sic] be recycled
 - Brew Strength
 - No Café Style drinks like lattes and cappuccinos
 - Brew cup size – larger drinks up to travel mug and have coffee produced be strong.”
- “The Keurig Vue V700 Single Cup Brewing System seeks to deliver solutions to all of these complaints, and does a very solid job on all accounts.”
- “Features of the Keurig VUE Single Cup Brewing System:
 - Brew Stronger - Custom Brew Technology means you can brew strong or regular coffee to suit your taste.
 - Brew Bigger - Brew full strength in a travel mug with VUE packs specially formulated to brew a bigger cup with the strength you expect.
 - Brew Hotter - VUE offers a wider range of brewing temperatures from 192-197F.
 - Brew More - In addition to coffee, tea, hot cocoa and iced beverages, VUE brews café beverages.
 - Brew Technology – VUE customizes the brew process - adjusting water pressure, timing and airflow. You can create frothy cafe beverages with air-infusion.
 - Be More Green - The Cup part of the VUE Packs are able to be recycled. It's also easier to compost the grounds as well because the filter can be easily removed.

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- Brew More Sizes – You can now brew 4oz, 6oz, 8oz, 10oz, 12oz, 14oz, 16 oz, or 18 oz size beverages and with the larger 74oz reservoir you'll fill the VUE with water less often.”
 - “All of the coffees we tried came out tasting a bit bolder, and more flavorful than their K-Cup counterparts. The Barista Prima Italian roast on the strong setting was what we would call café house strong. And the Tully's French roast even on the standard setting had the taste of more coffee in the cup.”
 - “Our only complaint is the brewer feels a little more plastic than we would like.”
 - “Vue packs debuted with more than 30 varieties representing a mix of brands and taste profiles.”
 - “In addition, GMCR and The J.M. Smucker Company have reached an agreement to include the Folger's Gourmet Selections and [Millstone](#) brands as part of the Vue system. GMCR expects to offer up to 50 Vue pack varieties by the end of June.”
 - “There is no word on Starbucks and Dunkin' Donuts VUE packs in the short term, but we expect them to be on the VUE platform in the Fall.”
 - “Keurig has hit a home run with the Keurig Vue V700 Single Cup Brewing System and Keurig Vue Packs. They addressed every complaint the earlier K-Cup brewers had, and then delivered a bit more than asked for. The entire design and appeal of the brewer feels modern, and the beverages from coffee to tea to lattes produced are all café quality.”
 - “We are a bit sensitive to the price at \$249 for the Keurig Vue V700 Single Cup Brewing System, and \$.62-\$.75 for each VUE cup, but then again you can also still purchase a K-Cup brewing system at \$100 less, and get K-Cups in the \$.55 range.”
 - “We do however expect to pay more for more drinks, more options when brewing, and also a modern LCD touch screen design. We think the footprint of the Keurig VUE V700 brewer is also in range with other Keurig brewers, and we feel the brewer looks amazing on our Single Serve Coffee kitchen countertops.”
 - “We think if you're looking to get into a single serve coffee system with lots of other hot beverage options – picking up a VUE brewer will not disappoint.”
 - Comment 4: “I purchased a VUE for my office this week. I sat it next to my B 140 and had my office staff test. The final tally noted they could not taste enough difference in the product to justify the added cost of the brewer and and K-cups. I was also disappointed to see instant creamer in the "milk" cup vs. real milk. We will stick with our current machine moving forward.”
 - Comment 10: “I just got one from BB&B here in Houston and have been using it for a couple of days and I really like it. As the review notes, the coffee is definitely stronger for the larger cup sizes and travel mugs that I generally use. My big complaint is the lake [sic] of a compatible My-VCup for my wife to use for lose lead [sic] teas that she loves. I have to keep our old K Cup brewer on the counter just for that till one is available.”
- **January 11 The Homa Files [blog](#)**
Rogers Family knock-off K-Cups are chronicled and discussed as a substantial threat to K-Cups before patents even expire.
- “Green Mountain Coffee Roaster's K-cups seem to be everywhere these days. A nice little patent-protected moneymaker for GMCR. That is, until a small company found a way around GMCR's patents ... or at least, thinks that it did.”
 - “Imagine that after all this success at GMCR, a tiny family company in California is moving in on your turf.”
 - “Not only is it imitating your ideas — but it actually is using the fancy Keurig machines Green Mountain produces as a selling point!”
 - “It would be frustrating. It would be infuriating. But it appears to be completely legal.”

Keurig has hit a home run with the Keurig Vue V700 Single Cup Brewing System and Keurig Vue Packs. They addressed every complaint the earlier K-Cup brewers had, and then delivered a bit more than asked for. The entire design and appeal of the brewer feels modern, and the beverages produced are all café quality.

Single Serve Coffee.com Review

The closely-held company [Rogers Family] apparently sidesteps the patent protection of Keurig's K-Cups because it uses a mesh screen on the bottom of the pots instead of plastic.

The Homa Files Blog

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- “Rogers Family Co., a coffee roaster and distributor based in Lincoln, Calif., has developed single-cup pods completely compatible with Keurig’s famous coffee brewer.”
- “The closely-held company apparently sidesteps the patent protection of Keurig’s K-Cups because it uses a mesh screen on the bottom of the pots instead of plastic.”
- “Not only does this allow the family-operated business to enter into the booming Keurig market, but it could give Rogers a chance at making a big splash with perhaps the cheapest brew out there.”
- “A 12-pack of Rogers Family’s cups will have a recommended retail price of \$6.99 and will be distributed to supermarkets including Costco, [Safeway](#) and [SuperValu](#).”
- “By contrast, Dunkin’ Donuts branded K-Cups sell for \$11.99 per 12-pack.”
- “Not likely that Green Mountain will take this one sitting down. Cue the patent attorneys ... this one’s not over.”

➤ April 23 Single Serve Coffee.com [article](#)

Rogers Family makes the best knock-off K-Cups at a very affordable price. Excitement is building for expansion of this line, especially as K-Cup patents expire.

- “Now that Keurig’s K-Cup patents are nearing ever so closer to their expiry date, we’ve been seeing more and more ‘knock-off’ K-Cups hit the market. ... We’ve been seeing an uptick in decent quality knock-offs over the past several months. One of the most popular knock-off products comes from Rogers Family Company Coffee Roasters.”
- “As the name would imply, this is a 100% family-owned & family-run business that got its start in 1979 in San Francisco and are currently based out of Lincoln, CA (about 2 hours outside of San Francisco). All operations of the company are overseen by various family members & they even operate their own organic coffee farms in Panama & Mexico. Their goal is to produce premium coffee at great prices while ensuring fair direct trade practices & maintaining sustainability.”
- “While the company prefers to call these products ‘OneCups’ (since they’re not affiliated with Keurig in any way), we prefer to call them ‘K-Cup Pods’ since they appear to take the best qualities of a pod (paper fiber filter, maximum saturation, etc) with the size factor & certain features of a K-Cup (no mess process, quick coffee extraction, etc.)”
- “These are so far the best quality ‘knock-off’ K-Cups on the market that provide the best possible quality, taste & affordability. You’re getting real ground coffee beans, professionally sourced & roasted just the same as GMCR does but for a fraction of the price. We’re frankly surprised at how cheap the pricing is on this product line-up.”
- “Taking the sourcing, processing & manufacturing of the coffee into consideration, we would have expected much higher final pricing. We can’t wait to see what the darker roasts in this line-up will be like. If this is a sign of what the unlicensed K-Cup market has in store, then we’re looking forward to some truly amazing & affordably priced Keurig-compatible products in the future.”
- “San Francisco Bay Breakfast Blend K-Cup Pods will work in all [Keurig](#) brewers and are available in 12-packs for \$6.99 USD via [Gourmet-Coffee.com](#).”

[Rogers Family] are so far the best quality ‘knock-off’ K-Cups on the market that provide the best possible quality, taste & affordability. If this is a sign of what the unlicensed K-Cup market has in store, then we’re looking forward to some truly amazing & affordably priced Keurig-compatible products in the future.

Single Serve Coffee.com Article

➤ Feb. 2 Single Serve Coffee.com [article](#)

A Canadian grocery chain has released its own in-house K-Cup knock-off, but to rather poor reviews.

- “We received news from our Canadian Correspondent, SH, that Canadian grocery chains have started to imitate a practice which recently popped-up this side of the border: knock-off imitation K-Cups. We’ve seen our fair share of good knock-offs (Rogers Family Company) to the downright awful (Grove Square), so let’s see what SH thought of the first Canadian Knock-off K-Cup to hit store shelves up North.”
- “From SH: I was recently at my local [Sobeys](#) (major Canadian grocery chain store) last month and noticed they had come out with their own brand of knock-off K-Cups via their in-house ‘Our Compliments’ brand. There were a total of 3 flavors: Light Roast, Medium Roast & Dark Roast. Each are sold in 12-packs for \$6.99 CAD and are a few dollars cheaper than the usual price of \$8.49 for Folgers K-Cups or \$8.99 for Van Houtte K-Cups.”
- “While they admit that their product is neither licensed nor originating from Keurig, I would not be surprised to see Keurig/GMCR file a lawsuit against Sobeys much like they did with Rogers Family Company for patent

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infringement. The design of outer packaging & how it opens up, the plastic cup itself and even the foil top are all VERY similar to real K-Cups.”

- “If you were to show one of these knock-off K-Cups to someone who has never used a Keurig before (but has seen photos of real K-Cups), they’d likely be inclined to believe it was the real deal.”

➤ March 16 Economic Times [article](#)

Starbucks’ Verismo is more likely to take share from Nestle’s Nespresso than Green Mountain’s Keurig.

- “Plans by Starbucks to launch a rival coffee machine to Nespresso may derail owner Nestle’s hopes for growth in the United States after the George Clooney-marketed system has proved a hit with espresso coffee lovers across Europe.”
- “Starbucks’ news last week sent shares in Green Mountain Coffee Roaster tumbling as the seller of Keurig machines controls more than three-quarters of the U.S. single-cup coffee market. But analysts see Starbucks’ move as more likely to hit Nestle’s fastest-growing big brand.”
- “Seattle-based Starbucks said it will beef up its presence in the rapidly-growing \$8 billion single-serve coffee market with its new Verismo machine due out later this year in North America and selected global markets. The single-portion coffee market, using refills known as cups, discs or pods, makes up around 8 percent of worldwide coffee sales, with half coming from ‘brewed’ coffee systems such as Keurig, Senseo, Tassimo, and [Dolce Gusto](#), and the other half from espresso which is largely dominated by Nespresso.”
- “Starbucks hopes to bridge this gap with its high-pressure coffee machine able to make both brewed and espresso coffee and heighten competition between the world’s biggest coffee houses, although it has given few details on pricing and availability.”
- “‘The launch of Verismo by Starbucks is bad news for both of Nestle’s single serve coffee platforms, the Nespresso and Nescafe Dolce Gusto,’ said Liberum Capital analyst Pablo Zuanic.”
- “He added the bulk of Nespresso’s growth in 2011 came from the United States as take-up in Western Europe has slowed, and he argues if Verismo halts the march of Nespresso then it could slice a fifth off Nestle’s overall annual profits growth. The rapid rise of upmarket coffee makers is likely to have taken trade away from coffee chains such as Starbucks itself and Whitbread’s Costa chain, as they offer quality coffee at around a fifth of the price, analysts said.”
- “‘These machines are the future of coffee, and Starbucks as an exciting young brand must see this as a massive opportunity,’ said Jonny Forsyth, senior drinks analyst at market research group Mintel.”
- “Nespresso has made big inroads into western continental European markets with their espresso coffee shop cultures, but has found it more difficult in Britain and the United States due to its high price, Forsyth added. The brand is very important to Nestle, accounting for over 4 percent of group sales and, with underlying sales growth of 20-40 percent a year, contributing some 10-15 percent of the group’s underlying sales growth. It boosts profit margins as well and so is a key focus for investors, analysts said.”
- “Starbucks chairman and founder Howard Schultz said the premium single-cup segment was the fastest-growing business in the coffee industry and this was why it had linked with German coffee machine maker Krueger to launch its new system.”
- “Since the Starbucks machine is based on a high-pressure espresso system to produce a more intense taste than Keurig’s low pressure filtered-coffee profile, analysts see the Starbucks move as squarely aimed at Nestle and its Nespresso system.”

Analysts see Starbucks’ move as more likely to hit Nestle’s fastest-growing big brand.

Economic Times Article

➤ March 9 Single Serve Coffee.com [article](#)

Verismo is part of Starbucks’ three-pronged approach to in-home coffee, along with K-Cups and VIA.

- “Verismo a super-convenient, single-cup machine for making espresso-based beverages at home from Starbucks is coming in late 2012. Verismo will make cafe style espresso based drinks, and will feature milk pods that contain 100% shelf stable milk.”
- “What’s the reason for Starbucks creating their own single serve coffee maker when they are making K-Cups and VIA single serve coffees? Espresso-based beverages are missing in their new 3 pronged strategy for the single serve coffee market. They feel the new Verismo machine will complement [sic] their two other offerings.”

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- “Here is their 3 pronged strategy:
 - Brewed single serve coffee with Green Mountain Coffee produced Starbucks K-Cups
 - VIA for people who don't want to purchase a single serve coffee maker
 - Verismo - Starbucks like quality - ability to make milk based beverages
- “Regarding the new VUE packs from Green Mountain - they are ‘looking into it.’ We don't expect Starbucks VUE packs now given Verismo, but they will continue to make K-Cups.”
- “How will Verismo roll out to the consumer market? They will first integrate the Verismo into their retail stores (17,000+) and validate it. They will then create a unique proprietary business following it having had Verismo validated in the stores.”
- “Verismo will be COMPLIMENTARY to VIA and a long term relationship with Green Mountain for them is still in the cards, as this holiday season they will be merchandising both K-Cups and the new Verismo. They also believe single serve coffee is in its early days, and thus they feel consumers will tell them in the long run if single serve coffee means all three offerings or just one of them.”
- “They are also partnering with a German firm, which until now we thought only made powder based coffees. Germany-based [Krueger GmbH & Co. KG](#), Starbucks will market and sell the premium Verismo system by Starbucks and Starbucks-sourced 100 percent arabica coffee and milk pods starting this fall.”
- “Some more facts on Starbucks Verismo:
 - Milk ‘pods’ use 100% shelf-stable milk and they claim that it tastes like real milk
 - No announcement about pricing either for the machine or the pods.”

➤ National Coffee Association USA's 2011 National Coffee Drinking [Survey](#) and [Supplemental Report](#)

The survey shows daily coffee drinking growing among young adults, a strong preference for drinking coffee in the home and significant growth in the single-serve market.

- “40% of 18-24 year olds drink coffee daily, up from 31% in 2010.
- “54% of adults age 25-39, said they drink coffee daily, up from 44% in 2010.”
- “These figures aligned with findings that 29% of those 18-39 felt better about their financial situation than last year, while other age groups did not.”
- “Gourmet coffee continues to be a significant portion (37%) of total coffee consumed – indicating that consumers want to maintain coffee quality despite the uncertain economy.”
- “86% of coffee consumers enjoyed their beverage at home compared to 24% who drink out of home past day, on par with 2010 findings. (Note that these figures include those who drink coffee both at home and away.)
- “Penetration is growing in the single serve arena at an average of 1% per year, and 35% of those with a pod system acquired it in the past six months.”
- “Purchasers of the pod system are now more likely to use it to replace their current brewer.”
- “There is an increased awareness of single-cup systems with 45% who think the systems are excellent or very good in 2011, compared to 26% in 2007.”

Penetration is growing in the single serve arena at an average of 1% per year, and 35% of those with a pod system acquired it in the past six months.

National Coffee Drinking Survey & Supplemental Report

➤ March 6 Coffee Geek.com [article](#)

Starbucks is opening a concept store in Amsterdam focusing on the slow coffee movement, including use of the first [Clover brewing machine](#) in Europe.

- “Thursday, on March 8th, 2012, Starbucks is about to try something new – for them -- in my beautiful home city of Amsterdam. It is a concept store that they are calling the New Coffee Experience Laboratory. It is also being referred to as ‘The Bank’ or more formally, ‘Starbucks The Bank’.”
- “It is interesting to note that much of what they are doing can already be found in some of the top shelf cafés found in the Pacific Northwest (Canada and the US), New York and even Los Angeles.”
- “Looking at the photographs of this new space Starbucks is opening, you can tell they put immense focus into the look and function. The Café and Lab occupy 430 sq.m. (4,500 square feet) of space.”

Green Mountain Coffee Roasters Inc.

- “It seems Starbucks is taking cues from something that is becoming increasingly popular in some top western cafés - the common table where many different customers will sit together and perhaps interact with each other. They have one very prominent in the central seating area of this new facility.”
- “The Bank was purposely created to push Starbucks beyond its comfort zone in terms of innovation and experimentation. What works in the Amsterdam store will make its way to the rest of Europe.”
- “The Coffee Experience Laboratory at Starbucks The Bank was designed and engineered to – as Starbucks says – treat coffee as a theatre. The moment you walk in the door, your eye and focus sees the ‘stage’ (where the baristas are working). ... Unusual for a Starbucks, baked goods and other non-coffee items are pushed off to the edges, and coffee has a front and centre attention. There are two well designed La Marzocco espresso machines central, and wrapped on either side are the slower-brewing coffee stations. Facing the stage, you see the Clover station on the right, and other slow brewing methods on the left of the espresso machine area.”
- “Starbucks is using a lot of terms and phrases to describe this facility, and another one they like to use is “Slow Coffee Theatre”. The slow coffee movement has been taking off worldwide, with care and attention paid by independent cafes to focused brewing stations, cupping notes, and places to interact with the working barista as they build the beverages. This appears to be a major goal at Starbucks The Bank in Amsterdam at well.”
- “Starbucks will be bringing their Clover machine to this location, and it will be the first Clover deployment in Europe.”
- “When you see the layout and function that this café will introduce, a lot of Starbucks' recent industry moves make a lot more sense. Starbucks has been retooling their coffees recently, and have been putting heavier focus on their own variants of ‘microlots’, which they call small batch reserve coffees. In test markets, they've been experimenting with lighter roasting methods more attuned to bringing the most out of the coffee's natural flavours instead of letting the roast dictate the primary tasting notes. We fully expect both of these things to be brought to the Starbucks The Bank location, and beyond.”
- “We see companies like [Intelligentsia](#), [Stumptown](#), [Blue Bottle](#), [Four Barrel](#), [Metropolis](#) and others take the lead not only in coffee house modern design in North America, but in how coffee is presented to the public. For a long time, Starbucks seemed neither interested in, or concerned about this movement towards slow coffee and more transparency in coffee. Now this has changed.”

Next Steps

Blueshift’s next report on Green Mountain will focus on the market penetration of the Vue. With its expansion to more than just Bed Bath & Beyond retail stores, coupled with increased marketing, we will monitor whether sales have picked up and if those sales include more existing Keurig owners. With more news to come on Verismo and Green Mountain’s Lavazza espresso single-serve, we will assess the battle between the two products and the implications for Green Mountain. We will follow up on the growth of K-Cup knock-offs and the effect this is having on K-Cup sales in stores and online before patents expire. Finally, we will revisit Keurig Authorized Distributors to learn more about their decision regarding their contracts with Green Mountain.

Additional research by Renee Euchner, Rebecca Raney, Marissa Yaremich, Maggie Purcell, Rachel Ross and Tina Strasser

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