

Keurig 2.0 Won't Save GMCR from Unlicensed Marketshare Grab

Companies: BBY, COST, DNKN, GMCR, JAH, JAMN, KR, KRFT, MDLZ, VTX:NESN, SBUX, SJM, SWY, TGT, THI, THS, WMT

April 10, 2014

Research Question:

Can Keurig Green Mountain successfully consolidate market share through the development of its Keurig 2.0?

Summary of Findings

- The introduction of the [Keurig 2.0](#) will not enable [Keurig Green Mountain Inc.](#) (GMCR) to fend off growing competition from unlicensed K-Cup manufacturers, according to 28 of 34 sources.
- Current Keurig owners have little motivation to upgrade to the new brewer. Many will be upset and confused with the 2.0's closed system that blocks use of unlicensed K-Cups and forces a choice between licensed and unlicensed K-Cups that have been available for a year and a half.
- Executives in the grocery channel want to keep their lower-priced alternatives for category growth and gross margin reasons.
- Unlicensed K-Cup producers see a chance to expand in the single-serve category as Green Mountain focuses on 2.0 brewers, giving competitors a window to legacy Keurig brewers, and giving time to develop new brewers compatible with unlicensed K-Cups.
- Unlicensed K-Cups cost less and have higher margins than licensed K-Cups, and thus are better positioned to absorb rising coffee prices. Sources said this flexibility to give up a little in margin and still maintain low prices, while Green Mountain is likely to pass cost increases on to consumers, further stratifies the market and makes unlicensed K-Cups more attractive and viable.
- Five of the nine unlicensed K-Cup producers and buyers at grocery stores are open to partnering with Green Mountain if terms are favorable and they can continue as a low-cost alternative with a 35-45 cent per-cup offering—conditions they do not expect to materialize.
- Two of five unlicensed manufacturers will not partner with Green Mountain under any terms.
- Sources do not believe [the carafe feature](#) of the Keurig 2.0 will be the catalyst for purchases that Green Mountain and others claim.
- A survey of 316 U.S. coffee drinkers found limited appeal for the Keurig 2.0 based on lack of desire for a new machine, high satisfaction with their current brewer, and some backlash over the exclusion of unlicensed brands with the new release. Licensed K-Cups continue to dominate the landscape, though 39% of respondents have increased unlicensed brand purchases from three months ago.

Silo Summaries

[1\) Unlicensed K-Cup Manufacturers](#)

Four of five sources believe the introduction of the Keurig 2.0 creates an opening for unlicensed brands to continue high double-digit penetration of the single-serve market. Sources are taking share from GMCR, with one quantifying it at \$300 million annually. Rising coffee prices are more easily managed by unlicensed brands than by GMCR.

[2\) Private-label Buyers for Grocery Stores](#)

All four sources said the Keurig 2.0 will result in consumer backlash for GMCR. Sources consider unlicensed brands increasingly important to their single-serve sales mix. Unlicensed brands represent a low-priced alternative to GMCR K-Cups, yet margins are better and can withstand a commodity-driven price increase easier than GMCR.

[3\) Retail Executives](#)

All three sources said there is no excitement for the Keurig 2.0. The Keurig and K-Cup environment in the non-grocery channel has peaked. Two sources are likely to drop K-Cups altogether to focus on the brewers, and the Keurig 2.0 has only hastened that decision.

[4\) Retail Store Personnel](#)

Six of seven sources said the Keurig 2.0 will not be popular when it is released, especially among current Keurig owners. There will be confusion and disappointment at the closed nature of the brewer.

[5\) Grocery Store Personnel](#)

All six sources said Keurig 2.0 will not be successful, nor will it entice existing Keurig owners to upgrade. Customers will be confused and upset with the closed system, and returns are expected. Four sources said K-Cup sales in the grocery channel are growing year to year, with one estimating a 10% increase.

[6\) Online Distributors](#)

Three of five believe Keurig 2.0 will not affect unlicensed brands as the closed system will be enough to turn customers away from upgrading to the new brewer. Two others said the new brewer will force unlicensed K-Cups to partner with GMCR if they want to stay relevant.

[7\) Industry Specialists](#)

Sources were split on the effect the new brewer may have on unlicensed K-Cups. Two said customers will not feel compelled to upgrade to the new brewer. One source said the new brewer will help GMCR.

Keurig Green Mountain

	Keurig 2.0	Unlicensed K-Cups
Unlicensed K-Cup Manufacturers	↓	↑
Private-label Buyers for Grocery Stores	↓	↑
Retail Executives	↓	↓
Retail Store Personnel	↓	↓
Grocery Store Personnel	↓	→
Online Distributors	→	↑
Industry Specialists	→	→

Background

After the expiration of key patents in 2012 opened the floodgates to cheaper unlicensed competitors in the K-Cup marketplace, Green Mountain has faced mounting concerns about declining earnings power due to the company's "Blade and Razor" business model. To combat the growing popularity of unlicensed K-Cup brands, like the Maxwell House offering from [Kraft Foods Group Inc.](#) (KRFT), Green Mountain has tried to take over manufacturing of these third party brands, which [increased their market share](#) from 7% halfway through 2013 to 14% by the end of the year.

Green Mountain has developed a more advanced brewer, the Keurig 2.0, which distinguishes between licensed Green Mountain K-Cups and unlicensed brands through [proprietary technology](#) designed to be "the physical equivalent to DRM [Digital Rights Management]." This technology has the potential to consolidate Green Mountain's hold on the K-Cup marketplace and drive the profitability of the company, while curtailing the growth of private labels.

In Blueshift's [Oct. 2013 report](#), 12 of 23 sources, including seven executives of unlicensed K-Cup manufacturers, said sales of unlicensed K-Cups had increased since Blueshift Research's [July 2013 report](#) and year-to-year. Sources said unlicensed manufacturers were taking share directly, but not significantly, from Green Mountain. They also commented that Green Mountain's upcoming anticounterfeiting brewer would only make customers and the grocery channel angry, and likely would backfire. Furthermore, some unlicensed K-Cup manufacturers and stores with their own K-Cup brands could be prompted to switch to other platforms and may give unlicensed brands a clear shot at supplying product to Keurig owners who will not upgrade to the new brewer.

Current Research

In this next study, Blueshift Research assessed whether Keurig 2.0 will consolidate the single-serve market and defend its turf against unlicensed brands. We employed our pattern mining approach to establish and interview sources in nine independent silos:

- 1) Unlicensed K-Cup Manufacturers (5)
- 2) Private-label Buyers for Grocery Stores (4)
- 3) Retail Executives (3)
- 4) Retail Store Personnel (7)
- 5) Grocery Store Personnel (6)
- 6) Online Distributors (5)
- 7) Industry Specialists (4)

Keurig Green Mountain

- 8) Online Customer Survey (316)
- 9) Secondary sources (7)

We interviewed 34 primary sources, including 12 repeat sources, and identified 7 of the most relevant secondary sources focused on Keurig 2.0 and the unlicensed K-Cup market.

Next Steps

Blueshift will continue to monitor developments in the single serve coffee space as Keurig 2.0 approaches the market. We will follow GMCR's attempts to partner with additional unlicensed brands. We will learn about any new brewers geared toward unlicensed K-Cups that may come to market in 2014 and 2015, and we will gauge consumer interest in the carafe option in Keurig 2.0.

Silos

1) Unlicensed K-Cup Manufacturers

Four of five sources believe the introduction of the Keurig 2.0 creates an opening for unlicensed brands to continue high double-digit penetration of the single-serve market for years to come. With Green Mountain focused on its new brewer, unlicensed brands have the opportunity to sell more K-Cups to current Keurig owners, the majority of whom likely will not upgrade. Sources anticipate consumer backlash against the forthcoming closed system. Sales of unlicensed brands continue to climb, admittedly from a low relative base, and sources agreed they are taking share from Green Mountain and will continue to do so, with one source quantifying it at \$300 million annually, while another believes unlicensed brands have sold over 1 billion K-Cups. Cost and capacity are not an issue for unlicensed brands, at least for the next 12 months. They have limitless capacity, and rising coffee prices are more easily managed by unlicensed brands than by Green Mountain. Sources said they do not need to pass on cost increases to consumers and will instead sacrifice margins, something Green Mountain is unlikely to do. This places unlicensed brands in the enviable position of keeping value-oriented price points low while Green Mountain may need to raise already-premium prices beyond the mass-market comfort level. Three sources are willing to partner with Green Mountain but need favorable terms, while two others are vehemently opposed to cooperation on any basis. Only one source appears to have a partnership as a goal for its business.

KEY SILO FINDINGS

Current Sales

- 3 of 5 report sales growing at an aggressive pace.
 - o 1 said sales have not doubled like last year, so technically slowing, but reaching critical mass.
 - o 1 did not comment.
- 1 said unlicensed K-Cup sales now make up 20% of the market and as much as 1 billion cups, with expectations for another 10% - 15% in the next year.
- 1 said unlicensed K-Cups will take \$300 million in sales per year from Green Mountain.
- Cost and capacity is not an issue for unlicensed brands, at least for the next 12 months.
- 3 said they have significantly more pricing flexibility than Green Mountain, and won't need to pass on coffee price increases to customers like Green Mountain will.
 - o 1 said his costs are 30% - 50% below Green Mountain.
 - o 1 said their gross margin is at 35%.
 - o 1 said they are profitable charging 35 cents per K-Cup.

Competition from Green Mountain

- 4 said Keurig 2.0 presents problems for Green Mountain and opportunity for unlicensed brands.

Keurig Green Mountain

- New brewer with closed system is defensive, will cut growth as it limits unlicensed brands, will experience customer backlash and shows Green Mountain as desperate.
- Unlicensed brands see opportunity to serve non-2.0 market with less competition now that 2.0 is coming out.
- 2.0 creates the opening unlicensed brands have been waiting for.

Partnering with Green Mountain

- 3 would partner if the right deal came along.
 - o Only 1 thinks this is a possibility.
- 2 not interested in partnership.

1. President of a private-label coffee producer; repeat source

Unlicensed single-cup coffee remains a good business and is taking share from branded alternatives. Green Mountain's eagerness to force third-party roasters to adopt its bar codes is both perplexing and counter-productive. The technology provides little clear benefit to consumers beyond providing support for larger carafes that will create logistical issues of their own. At best, the system will push Green Mountain back to cult status and restart the company's growth trajectory from there. At worst, it will expose the Keurig ecosystem to competitors that have been waiting for an opening.

Oct. 18, 2013 summary: This source has not been approached by Green Mountain as a potential partner, and he vehemently opposed such a move. Private-label single-cup coffee sales are still growing, but the market appears to be reaching equilibrium as consumers embrace a wider range of choices. Those competing on price are seeing greater volumes than those priced equivalent to Green Mountain. The company has eroded traditional boundaries between premium and discount coffee branding, easing the way for private labels to compete on value. Next-generation Keurig systems will need a manual override for users looking to customize their beverages and accommodate third-party cups. Otherwise, Green Mountain risks backlash and ultimate decline.

Current Sales

- "Sales are very good. We are actually ahead of where we thought we would be in terms of capturing the single-serving coffee consumer's interest. I can't give you anything more concrete in terms of numbers but we are winning on the strength of our quality, without having to resort to any kind of bizarre monopolistic strategy to do it."
- "Green Mountain is up 8% year over year in terms of actual cup sales. That's a fairly transparent gauge of how well they are doing on a per-unit basis. We are gaining share on them off a much smaller base. After all, we've only been in this market for a few years. But I find it interesting that they are coming from what was effectively a share of 100% a few years ago. If they are only growing their sales by 8% a year now, does that mean the single-cup market is only growing 8% a year? This is a market that has expanded 20-fold over the last five years, and Green Mountain is only seeing 8% of that growth now on the coffee side?"
- "It's an avalanche of innovation and creativity. It's a revolution. And the new cups are not brewer-dependent at all. It's a revolution in packaging and scale, really, not how the coffee is brewed in the pot. Green Mountain's error is that they want to control how the coffee is brewed and what coffee is brewed. I don't know if they'll be successful in that. Traditionally a free market decides."
- "Our cost per cup remains 30% to 50% below Green Mountain's baseline and while I don't know their exact margins, it's a very comfortable business for us. Remember, we are used to the margins on bulk coffee by the pound, which are much tighter than what Green Mountain traditionally enjoyed and what we can now share with the consumer."
- "Over the next year I fully expect that all of us together will drive Green Mountain's overall growth rate in terms of cups of coffee sold to close to zero. That means we grow extremely fast off our little base. It means shaving up to \$300 million a year off their overall top line. They keep their loyal customers. They just don't add as many more."
- "We can produce as many billions of pods as our customers need at a lower cost, so they are more shielded from coffee prices and their retail customers are more shielded from coffee prices if it comes down to that. This is still a

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*President
Private-label Coffee Producer*

Keurig Green Mountain

windfall business for us. Green Mountain has come to expect a certain margin and seems unwilling to sacrifice it, so when their supply costs rise—probably well over a year from now—they will pass it on.”

Competition from Green Mountain

- “Green Mountain is running a defensive strategy that I think is not only bizarre but dangerously anti-competitive. They lost control over which coffee goes in the brewer. A good competitor acknowledges the loss and tries harder. What they are doing is trying to reassert control over the coffee selection process by hardwiring it into the brewer itself. The brewer refuses or at least makes life difficult for someone who doesn’t care to use Green Mountain pods at Green Mountain prices.”
- “The premise is confusing. Keurig 2.0 will have automatic recipes, temperature control, air flow. How much of that does any retail consumer really need to brew a good cup of coffee? The 1.0 seemed good enough to me. You put the pod in, push a button, it does its job. I think consumers get that. They will still have to push a button or two to run a 2.0 cycle, and if they don’t, that system strikes me as almost needless convenience.”
- “And Green Mountain says the new system will replace the old over a year period. That’s mysterious. Is that when the bar code locks kick in? People have a year to use up old pods? There are deadlines in coffee now?”
- “The larger pot option is good if you want to be in the larger pot space. Will they sell big cups? Shelf them next to the little ones? Will people have to buy both and keep both on hand? Again, more questions than value drivers there.”
- “Green Mountain is welcome to take its toys and go home. The problem is they invested a lot of resources in making those toys—the brewers—a credible, popular alternative to full-carafe drip coffee. Now that people have a taste for single-cup, they’re going to follow single-cup across manufacturers if they have to.”
- “[Nestle \[S.A./VTX:NESN\]](#) is very interested in coming to America. You already have [Tassimo](#) [Mondelez International Inc./MDLZ]. Anyone who wants to create a little one-cup hot water channel can do so. The differentiator is what that water channel can do and how much the consumables cost and how good they are.”
- “If the consumables are the deciding factor, giving [Starbucks \[Corp./SBUX\]](#) a free hand is very dangerous for Green Mountain. People will follow Starbucks to any device that gives them a better all-in-one deal. I would have pushed Starbucks into an exclusive, to be honest. Pay them whatever split they want to be Keurig-only.”
- “But when you cut yourself off from any consumable decision, you cut yourself off from that slice of the consumer population. It may not be a big slice but it adds up. Cutting off all consumable decisions except your house brands and friends means you are cutting off growth. You are handing the other brewer makers a gift-wrapped opportunity. In exchange for that, you get to look at your clean ecosystem, free from nasty competition and the fairer pricing and profit margins that entails.”

Partnering with Green Mountain

- “They have not reached out and I would refuse.”
- “We basically split profits with the retailers. The details change but that’s about it.”
- “Peet’s wants to make a name for itself. It’s fighting Starbucks, not us. It’s a coffee retail play.”

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*President
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2. Sales executive for a global private-label food manufacturer; repeat source

Market share for all unlicensed vendors has doubled in the past year, leaving Green Mountain 80% of the market. Momentum has decelerated a bit but is on track to capture another 10% to 15% of the overall single-cup opportunity over the next year. After that, the lines will have been drawn and Green Mountain is free to wall off new Keurig users as best it can. Keurig 2.0 could have dramatic repercussions for the single-cup industry but not necessarily positive ones for Green Mountain.

Oct. 18, 2013 summary: This source does not believe there is a benefit to partnering with Green Mountain. The flood of Keurig-compatible coffee formats continues to drag on licensed brands’ growth. Supermarket channel sales are strong for unlicensed brands, with sales doubling in the last three months. Vendors that have invested in their own proprietary cups are unlikely to accept Green Mountain’s terms for at least the next year, by which point licensed brands will have

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lost another 15% of the Keurig market. Capacity is not a concern for unlicensed brands. Green Mountain configuring its brewers to restrict usage will not be popular among consumers and smacks of desperation.

Current Sales

- “Our sales have not doubled again over the last year so technically growth is ‘slowing,’ but the amount of dollars we are capturing is still compounding very nicely. We have critical mass. We have actual market share, a product worth tens of millions of dollars a year and still rising at a nice high-double-digit clip.”
- “Green Mountain gave us all the keys to reinvigorate our business and our product lines. Single-cup is fun. It’s artisanal. You can play with the packaging and win people over with just one cup. Done in a smart way, it eliminates waste. We are happy to be at this party.”
- “Coffee costs and capacity should not be a problem for at least another year out. Everyone built out for an industrial operation, billions upon billions of cups ready to go. Some individual packagers can boast that their capacity is that high. At most the world needs 6 billion cups a year.”

Competition from Green Mountain

- “All of us together probably do account for 20% of those cups now, or maybe 1 billion cups altogether. From here, growth gets a little less intense and we might start having to compete harder against each other, but I see another 10% of low-hanging fruit that can be chopped down from Green Mountain easy, maybe another 15%. That takes us to the dawn of the new closed-architecture Keurig and into a whole new ball game.”
- “Keurig 2.0 freezes market share on the old machines or worse: because it takes Green Mountain’s eye off the existing base of Keurig users, we have free rein there. Until more Keurig users are on the new system than are on the legacy system, we actually have critical mass on our side.”
- “It’s the opposite of the competitive situation we have today, where Green Mountain starts from everything and we have to carve up from zero.”
- “When Keurig 2.0 launches, they start the counter back at 100% of the 2.0 market for them and 0% for us, while in the overall Keurig marketplace our ‘home field advantage’ in 1.0 starts at 100% and Keurig is vulnerable throughout that segment. We have momentum on our side in 1.0. That’s why they are launching 2.0 and walling themselves in. Once they’re walled in, it will be like handing us the share they have left.”
- “Will 2.0 eventually cannibalize 1.0? Sure. Machines break down, people convert. But it will take two or three years before this experiment even looks like paying off for them. In the meantime, their patents are two to three years older and their competitors have two to three years to wedge themselves into the market. Kraft may get ambitious and force people to choose between Kraft coffee on a Kraft brewer, versus Green Mountain coffee on a Green Mountain brewer. Peet’s, who knows? Starbucks, who knows?”

Partnering with Green Mountain

- “I am not particularly interested, but ask me again in two to three years.”

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*Sales Executive
Global Private-label Food Manufacturer*

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3. CEO for a private-label coffee manufacturer and single-cup OEM; repeat source

Keurig 2.0 reveals Green Mountain’s competitive desperation. Environmental and quality advantages are creating significant inroads for rival single-cup vendors on what was once a completely closed and highly profitable platform. Even enterprise Keurig users are experimenting with unlicensed brands, for environmental reasons as well as value.

Keurig Green Mountain

Oct. 18, 2013 summary: This source would be happy to partner with Green Mountain provided he keeps his profitability, though he doubts that outcome. True unlicensed brand sales continue to accelerate as nonresidential accounts experiment with their coffee supply. Vendors consider the Keurig market a windfall opportunity and, as such, have little to lose in competing aggressively to win immediate share. Starbucks and Green Mountain will be vulnerable over the next year. Margins for private label continue to be lucrative despite having lower prices than Green Mountain. Capacity is limitless, and there is little fear of Keurig's new brewers as the machine replacement window for consumers will be another three to five years.

Current Sales

- "We sell the same coffee into pound bags and pod format, only the pod has an ultimate retail price of about double the retail price of the pound bag. It's a game-changing business for us. We are very strongly motivated to help expand the growth of the single-cup pod market."
- "We have plenty of coffee and can measure out enough pods as our customers need. We have plenty of roasters standing by to provide more raw product as required."
- "Recent developments in the commodity market should play out over the next nine months. I hope they do, but if not, we can give back some of our margins to remain exactly as competitive as we are now in single-cup."

Competition from Green Mountain

- "The new brewer announcement is the hallmark of a sore loser and a bad-faith operator. It does nothing for the consumer that I can see and seems squarely geared toward shutting down competition for every cup of coffee brewed on every Keurig on the planet. But they have no power over every Keurig that's already been sold, so as long as those machines work there will always be a market for third-party cups."
- "My question is whether Green Mountain wants the existing machines to break down faster so people will have to upgrade. That's just mean. I hope the brewers last for years. If not, they have a bigger problem than refusing to let their customers choose a type of coffee for themselves. At that point, the product looks shoddy."
- "We have taken every bit of share we have in the single-cup marketplace from Green Mountain. It isn't a big chunk of the overall coffee marketplace but it's a strong win for us and a little negative for them. What is interesting to me is that corporate Keurig users are finally catching on to the fact that they can buy from us and cut their substantial coffee bills in half. That's starting to hit Green Mountain right where they live. Residential was only their growth market."

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*CEO, Private-label Coffee Manufacturer
& Single-cup OEM*

Partnering with Green Mountain

- "We are not talking to them about partnering. There is no reason to do it. We are not really a brand in ourselves. If our retail partners wanted to talk to Green Mountain about a proprietary cup, we would be happy to be part of that conversation."
- "None of our retail partners have jumped at the chance. I don't think Green Mountain is offering them the terms they want. They want a lower price point and a richer profit margin. Green Mountain will give them one or the other, because Green Mountain is concerned with keeping its price point high in order to maintain its own margins. Giving up both is not what they want to do."

4. Marketing director for a private-label coffee producer; repeat source

Keurig 2.0 will need lower-cost options in order to compete with the value and selection that legacy brewers now provide. Unlicensed brands are still growing at a 30% to 50% rate. Grocery retailers have strong incentives to popularize unlicensed brands and very little reason to promote proprietary K-Cups to price-conscious shoppers. Green Mountain per-cup pricing has already reached a nuisance for enterprise customers in the hospitality industry and large corporate users are now eager to source private-label alternatives as well.

July 3, 2013 summary: Competitive pressure on Green Mountain is increasing as more vendors enter the single-serve market. Although Green Mountain and its licensees retain their stranglehold on the specialty consumer, their pricing has

Keurig Green Mountain

alienated key institutional and enterprise accounts, many of which are looking for new partners. Grocery probably will follow along a compressed timeline, with significant erosion to Green Mountain share emerging in the next 12 months.

Current Sales

- “We are growing our private label business in the mid-double-digit range this year. This is the year that everyone realizes that they don’t have to put up with Green Mountain if they don’t actually like the coffee enough to pay twice the price. Our unique relationships are helping us tell that story in some fairly unexpected areas.”
- “We provide a private labeling program to office managers who are sensitive to brand choices in the break room. They don’t want to take Starbucks away and leave only Brand X, so they’re surprisingly eager to create something that looks like premium retail grade coffee-in-a-pod. That is becoming a significant business for us. We are also seeing increased interest from hoteliers with Keurig machines in the lobby or even in the better rooms.”
- “The issue with these customers is scale. One person at home can drink 360 cups of coffee a year and pay 75 cents retail per cup for a total of \$275. Compared to the \$75 to \$80 he might spend for that much bulk coffee, that’s not so bad, and there’s not a huge gap between \$75 and \$175 and \$275.”
- “But multiply that person by 1,000 workers or 300 hotel rooms, and suddenly the gap between \$75 and \$275 becomes tens of thousands of dollars. You can’t put a can of grounds and a drip percolator in every room of your hotel or company, so you need to carve down that 75 cents per cup as much as you can.”
- “I would say the 75 cents per cup is not a pain point for enterprise or they would be dropping it en masse. But it’s a nuisance point. It’s a place to start a conversation about getting off the Green Mountain cups.”
- “Groceries are the same way, only from the other end of the scale. If they sell 10,000 single-serving coffee units a year—just a round number—every extra nickel in profit they can squeeze out of each cup adds up to real money. We give them that extra nickel and more, actually. They don’t get that kind of deal from Green Mountain on a per-unit basis.”
- “The end result is that private label incentivizes groceries to sell more cups than they would ordinarily. They’ll pitch it actively to price-conscious consumers. They’ll recommend the cheaper alternative. They look good and are still making more money per cup of coffee that people actually drink. And hey, if you want to drink two cups a day now, go for it! You can afford it! Green Mountain doesn’t do that. The groceries are growing single-cup as a quantity proposition better now than Green Mountain is growing it as a prestige proposition.”

Competition from Green Mountain

- “It’s all about competition with Green Mountain. They are obviously on the defensive. They are getting their share nibbled at faster than they can grow the Keurig population. They can’t keep those people sewn in any more. We have had two years to get into the Keurig and you can see the results. Nobody wants to leave. We all want more.”
- “Unfortunately Green Mountain doesn’t want to share. This could be a disaster if they don’t think to create a private label-like environment in the new brewers. You need to bring per-cup costs down. We have proved that it is possible and sustainable to run 35-cent per-cup coffee. [Costco Wholesale Corp./COST](#) proves that every day with the big box packs. Those packs need to be on Keurig 2.0 or there will be a riot.”

Partnering with Green Mountain

- “I’d be happy to sell a 35-cent cup into the K-Cup world if they asked me.”
- “I still have no idea what Peet’s is up to. It looks like a straight retail branding deal, like [Dunkin’ Donuts](#) [Dunkin Brands Group Inc./DNKN] or Starbucks. That’s not a coffee manufacturing deal so I don’t know what their new owners are planning to do with the roasting and coffee warehousing assets they also own. Is it a vertical bean-to-brand operation?”

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*Marketing Director
Private-Label Coffee Producer*

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Keurig Green Mountain

5. CEO for a private-label coffee producer

Sales have quadrupled over the last year and private label Keurig-compatible formats account for half the business now. The business is so lucrative that the company will seek a Green Mountain license as the Keurig 2.0 hits the market.

Current Sales

- “Our sales are up 300% year to year. Part of that is our own aggressive marketing effort but a big piece is definitely the explosion of private-label Keurig-compatible coffee. I won’t lie: we are a small player. But we are growing fast. Half of our business is already single-cup and it is easily accounting for 90% of our growth.”
- “Capacity is no problem because we are still so small. It takes a lot of growth simply to fully utilize the production line we now have, let alone think about needing more. As for cost pressure, we are currently priced 10 cents below other premium branded private-label cups, so we can move the bar up to the market as the global coffee market determines is necessary.”
- “Besides, our gross margin per cup is something like 35% to 36%. We have room to be flexible.”

Competition from Green Mountain

- “They are a formidable company and we thank them for inventing the single-cup approach. It is genius. I worked heavily with them in the past and trust them to run a competitive business.”

Partnering with Green Mountain

- “We would be happy to license a K-Cup when it comes down to it. We would price it at a full 75 cents and rely on our differentiated product to set us apart. That would pay the licensing fees and keep everyone else happy.”
- “There’s no need to do that yet, though. Right now, it’s an open field and we are happy just to be playing.”
- “Because we aren’t a value brand, we have that kind of room to move. I can understand if value vendors aren’t happy with the idea of paying Green Mountain a cut just to sell coffee into Green Mountain machines. But that’s not us and it’s not the reason our customers deploy us on their shelves. We’re a premium house brand.”

We are currently priced 10 cents below other premium branded private-label cups, so we can move the bar up to the market as the global coffee market determines is necessary. ... Besides, our gross margin per cup is something like 35% to 36%. We have room to be flexible.

CEO, Private-label Coffee Producer

2) Private-label Buyers for Grocery Stores

All four sources said the Keurig 2.0 will result in consumer backlash for Green Mountain, pushing single-serve drinkers away from the new brewer because they want to keep all brand choices open. Customers will not respond to a closed system after being introduced to single-serve through an open brewing system. With so many recently purchased Keurig brewers, customers are not likely to upgrade to the 2.0 until at least 2016, giving competing open-system brewers time to hit the market. Grocery stores are leery of the confusion and headache the 2.0 will cause if they have to stock two different types of K-Cups and deal with fallout from unhappy and confused customers. All in all, sources consider unlicensed brands increasingly important to their single-serve sales mix. Two sources said unlicensed K-Cup sales are growing and taking share from Green Mountain, while two others said it is holding steady. Unlicensed brands represent a low-priced alternative to Green Mountain K-Cups, yet margins are better and can withstand a commodity-driven price increase easier than Green Mountain, which would pass on higher prices to customers, furthering the divide among competitors. Two sources are willing to partner with Green Mountain, but only if they can maintain their current 40-45 cents-per-cup price, which they doubt is realistic.

KEY SILO FINDINGS

Current Sales

- 2 of 4 said unlicensed sales are growing.
- 2 said it is holding steady.
- 1 said unlicensed sales make up 15% of coffee sales, expected it to be 20% to 30% by now.
- 3 said unlicensed brands make up the less expensive alternative for customers to premium-priced Green Mountain.

Keurig Green Mountain

- 3 said Green Mountain K-Cup sales growth is slowing.
- 3 said each unlicensed sale is taking away from Green Mountain.
- 2 said unlicensed margins are higher than Green Mountain, another said margins were 30%.
- Any commodity-driven price increase would be more easily handled by unlicensed brands which would give a little back on margin instead of passing it on to customer, while Green Mountain would have to increase prices.
- Price increase from Green Mountain will driver consumers increasingly to unlicensed brands who will hold price steady.
- 1 said unlicensed K-Cups are driving Keurig sales.
- 1 said Green Mountain K-Cups are a small part of their business and will fade to zero, especially with introduction of 2.0.

Competition from Green Mountain

- 4 said Keurig 2.0 will push consumers away from Green Mountain.
 - o Customers don't want to be forced to make a choice, market will be cut off with closed system which will result in backlash.
- 1 said new non-Keurig machines are forthcoming and 2.0 will only help them arrive to hungry market.
- 1 said current Keurig owners won't upgrade until 2016.
- 1 said there will be confusion and resentment from customers, and a tremendous inconvenience for stores forced to alter displays with "new" and "old" K-Cups.

Partnering with Green Mountain

- 3 said they'll continue to sell K-Cups, 1 is likely to drop K-Cups.
- 2 said they would partner with Green Mountain if they could sell for 40-45 cents per cup, which they don't expect.

1. Category manager for a national grocery group; repeat source

Unlicensed brands are expanding their presence and already have become the natural default option for households shifting to single-cup coffee systems, leaving Green Mountain and other proprietary cups on the premium side of the ecosystem. Pushing those households off the Keurig upgrade path will only push them out of the Keurig universe entirely. Shoppers are hungry for brewer-agnostic coffee. Any commodity-linked price increases will accelerate price-sensitive consumers' flight to unlicensed brands' cups.

Oct. 18, 2013 summary: Existing relationships with unlicensed brand partners are satisfactory, making a Green Mountain deal less appealing unless the company were to make substantial concessions or if barcodes rendered third-party cups irrelevant. Single-cup coffee is still establishing itself as an essential player on the beverage aisle, but within the space, store brands are outperforming as a bridge for customers transitioning from bulk coffee to ultra-premium single-cup pricing. This source's brand sales have grown 10% in the last three months.

Current Sales

- "Single-cup coffee has not expanded as fast as we thought it would. I think for most of last year nobody was buying the brewers so we weren't getting any new people. At this point it's now maybe 15% of our coffee sales. When we talked last year, I thought it would be 20% to 30% by now. Within that world, Green Mountain and Starbucks have basically leveled off. All the growth has been our private label brands."
- "The people who were buying a new Keurig last year went straight to our private label as the floor. Occasionally they might buy a bag of something higher up, but the floor is the floor now. A year ago, the floor was the ceiling as people would buy a Keurig and think that the Green Mountain was the default at 75 cents per cup of coffee. They've learned that is not the case."
- "What I wonder is whether the wealthiest people have already adopted to the Keurig world and are already our Green Mountain buyers. Everyone new

Single-cup coffee has not expanded as fast as we thought it would. ... At this point it's now maybe 15% of our coffee sales. When we talked last year, I thought it would be 20% to 30% by now. Within that world, Green Mountain and Starbucks have basically leveled off. All the growth has been our private label brands. ... Our brand remains more profitable to us by something like 20 cents per cup sold, so that's a huge margin when you consider the relative price tag.

*Category Manager
National Grocery Group*

Keurig Green Mountain

may be going straight to private label because they simply don't have the budget to allocate that much to coffee every month."

- "Our brand remains more profitable to us by something like 20 cents per cup sold, so that's a huge margin when you consider the relative price tag. We are obviously very happy. We don't push it but we make it available on the same shelf as Starbucks and people vote with their wallets. To be honest, not many of the branded cups have all that much of a brand identity. It all looks new to most people so our brands are just as new and exotic-looking as Peet's or some of the others."
- "Because everyone thought single-cup would be a bigger boom this year and planned accordingly, there are no shortages. If anything, we are getting some whispers of incentives from people on the manufacturing side desperate to move more cups. We could see prices decline even though coffee prices themselves are climbing."
- "Any price hike on single-cup coffee puts it into luxury or pain territory. Green Mountain is already a luxury product costing easily double or triple what old-fashioned drip coffee used to cost. They can go higher on some points of the product line but it will cost them position as the default option. The default option can't start and stop at the high end. You will drive people off your whole platform if you raise prices. I think their goal is to grow the platform, not drive people away."
- "Private label recoups more margin so we can hold pricing on the low end a lot longer. We can also wiggle a little on quality for truly desperate people. Unlike Green Mountain, our partners can actually bend over backward to keep households in the Keurig world, which is ironic."

Competition from Green Mountain

- "Green Mountain loses a sale to us with every cup we sell, but then again, if not for us and stores like us, their brewers would just be flashy paperweights. They are one of the very few coffee makers that require any kind of proprietary coffee packaging in order to make coffee. Everyone else, you find a way to use any ground bean and can still use the machine."
- "'Single cup' used to mean a Keurig but it might not mean that six months from now or a year from now. There are a lot of machines waiting for a marketing push or a reason for someone to pick them over the name-brand Keurig. Losing the ability to use store brands may be that kind of push or reason. It might be a retail version of a hotel system or an espresso machine or a repurposed tea brewer. I don't know, but the door is opened now and I don't think Green Mountain should be closing it now."

Partnering with Green Mountain

- "We'll always sell Green Mountain proprietary cups as long as people want to buy them. We'll also sell private label cups as long as people have machines that can use them and they want to use those machines."

The people who were buying a new Keurig last year went straight to our private label as the floor. Occasionally they might buy a bag of something higher up, but the floor is the floor now. A year ago, the floor was the ceiling as people would buy a Keurig and think that the Green Mountain was the default at 75 cents per cup of coffee. They've learned that is not the case.

*Category Manager
National Grocery Group*

2. Brand manager for a national grocery group; repeat source

Official K-Cups have faded in the single-cup coffee mix but still represent a substantial share of overall dollar spend in the category. Forcing consumers to choose between the old open system and a bar-coded walled garden will create confusion and resentment. In any event, the recent acceleration in Keurig adoption means that many current users of the system will be reluctant to upgrade before 2016, giving unlicensed manufacturers plenty of room to move.

Oct. 18, 2013 summary: This source would be happy to partner with Green Mountain but only if it means a Costco-like deal. Single-cup coffee is still growing as a component of an otherwise stagnant coffee category, but Keurig-branded cups are fading into the mix as private labels and more generic small-brew coffee pods regain share. Rolling out much cheaper private-label products will accelerate the trend. His sales are up 10% to 15% year to year—mostly at Green Mountain's expense. If Green Mountain were to push unlicensed cups off its platform, stores would then push Keurig product off their shelves.

Current Sales

Keurig Green Mountain

- “Pure Keurig sales keep slowing relative to our overall coffee mix. Coffee itself is of course on the flat side in real consumption terms so the birth of single-cup has been and remains the exciting part of the category. But over the last year, what you are calling ‘private label’ has been the exciting part of the single-cup piece. Green Mountain and other licensed K-Cups aren’t growing as fast as overall single-cup for us. If anything, they’ve shrunk a little in terms of pure unit sales.”
- “Two, three years ago, people would switch from bulk coffee to Green Mountain. It was a one-to-one relationship. Now, we are seeing people switch from bulk coffee to private single-cup and from Green Mountain to private, and to be honest we occasionally see people switch back from single to bulk for various reasons. They never shift from private to Green Mountain. So as the perceived necessity of starting with Green Mountain when you buy the brewer fades, the window of time Green Mountain has to enjoy that customer has shrunk along with it. For some of our shoppers, it’s no longer there at all.”
- “I am not criticizing Green Mountain coffee, of course. Because it’s the high end of our single-cup product mix, it brings in a lot of raw revenue per unit and per foot of shelf. But our margins on private are about the same, even though those pods cost maybe half as much per cup.”
- “We have no capacity constraints that I’m aware of. Coffee pricing hasn’t hit our supply contracts yet but my guess is it will look more like 2011 than anything else. Simply having single-cup in the mix shields everyone’s margins. It’s basically already passed on the rising bean costs to the consumer under the guise of a consumer choice.”

Over the last year, what you are calling ‘private label’ has been the exciting part of the single-cup piece. Green Mountain and other licensed K-Cups aren’t growing as fast as overall single-cup for us. If anything, they’ve shrunk a little in terms of pure unit sales.

*Brand Manager
National Grocery Group*

Competition from Green Mountain

- “I’m sure forcing everyone else off their brewers is a great thing for them but I can only see it confusing people. My first thought was to worry whether new cups would work in old brewers, which is of course insane but you can see where the mind goes.”
- “Having to segregate ‘new Keurig’ and ‘old Keurig’ would be a mess. The coffee aisle has barely absorbed the split between bulk pack and single pack. Splitting single pack again into two apparently identical worlds—only the brewer knows for sure—would not be productive.”
- “The split would be real from the point of keeping ‘old’ cups off new brewers. There’s a packaging concern there that’s easy enough to cover: you have to warn people that this product will not work on such and such a model of coffee maker. But reading the labels is the shopper’s duty and many are not great at that. You will see ‘new’ brewer people buy ‘old’ cups or have them lying around and they will get very angry because they wanted coffee and now it won’t work so they have no coffee. That’s the kind of experience that sinks your whole carefully curated brand right there.”
- “I hear different numbers but if Green Mountain has sold about 21 million Keurig machines in the last two years and if the total Keurig user base is something like 17 million, it’s clear that most if not all Keurig users have a new machine. Will it take them two years to feel the need to move to the new system? Maybe. Maybe it will take longer. For all I know the new system will be amazing and the upgrade curve will be a lot shorter. What I do know is that it’s not going to be anything like a rush to upgrade like this was software or something. It’s a fairly durable appliance that people expect to use for a few years before they throw it away.”
- “I think it’s going to be late 2015 at the very earliest before private label single coffee sees any pressure at all. By that point, maybe they will have other brewers eager to work with them. Green Mountain has Starbucks on its side, but Starbucks will work with anyone. And they have Peet’s now, but I’m not sure that’s such a big deal. It’s a big coffee chain but not really the lifestyle choice that Starbucks is. Then you have Dunkin Donuts and other branded coffees that will cheerfully work with anyone. Against them, you have everyone else in the coffee world.”
- “I also have concerns that Keurig itself is not really adding 5 million new households a quarter. That would be a huge growth spike that we would have seen in our bulk coffee sales. I think it would translate into a decline of 4% to 5% in

Having to segregate ‘new Keurig’ and ‘old Keurig’ would be a mess. The coffee aisle has barely absorbed the split between bulk pack and single pack. Splitting single pack again into two apparently identical worlds—only the brewer knows for sure—would not be productive.

*Brand Manager
National Grocery Group*

Keurig Green Mountain

our bulk sales every 3 months and that hasn't happened. I would look to the sales of K-Cup packs to get a sense of market share, and that's kind of a more chilling story."

- "As a consumable, the entire user base buys the coffee every quarter. Cup sales are up 8% so has the user base grown 8% in the last year? Or has the user base grown faster—which makes a lot of sense given that I hear only 17 million households and businesses have Keurigs at all—and most of the coffee they put in those new and old machines is non-licensed? The first case tells me Keurig has peaked. The latter tells me Green Mountain coffee sales have peaked."

Partnering with Green Mountain

- "I would love an official K-Cup at 45 cents a cup. No luck so far. We are not a coffee company. I just want to have a value alternative for my price-sensitive single-cup shoppers. Whether that means private label from a third party or private label from Green Mountain itself, I'm agnostic."
- "Unless there's a reason to carry only 'new' cups, we'll keep our old ones for the old machines. Two years is a long time and that's at least the amount of time the old cups will remain relevant."

3. Brand manager for a regional grocery group; repeat source

The K-Cup universe is already too crowded with look-alike brands at the same high price point. Forcing third-party vendors into a proprietary format would rob the market of the diversity it has worked hard to build. Green Mountain seems ambivalent toward the grocery channel and its desire for a more robust range of consumer options. Unlicensed brand suppliers have kept up with demand and no capacity constraints will materialize in the foreseeable future.

Oct. 18, 2013 summary: This source is open to a partnership if he can get the same terms as he has now, though Green Mountain has not yet approached him. Although sales remain robust, the proliferation of single-cup brands and cup formats has become confusing, if not annoying, to consumers. Active differentiation in terms of price is necessary, but Green Mountain has not encouraged its licensees to segment their offerings. Eliminating unlicensed brands would help streamline the category but would not provide clear guidance to consumers or retailers on what to buy or stock. Green Mountain seems perplexed by the grocery channel and its place in it.

Current Sales

- "Our coffee sales are up a lot, mostly due to the shoppers who converted to single-cup packaging over the year. Simply converting every cup from bulk to pod pricing diverted two to three times as many dollars per household to the coffee aisle. Those customers are spending three times as much per month on coffee."
- "Green Mountain K-Cup sales are a huge part of that. Obviously Starbucks is big. Green Mountain cups are seen as kind of generic, bizarrely. It's the brand people reach for when they just want single-cup coffee and don't have a firm preference. Everything else just sits on the shelf. We keep trying to push things around but nothing really works."
- "The issue for us is that we have had to create our own product universe there because Green Mountain ended up as a bunch of different-colored labels and words for coffee but the experience is sort of generic and all the vendors decided to price at or above the standard Green Mountain pricing. It's like forcing us to stock a shelf full of 30 flavors of same."
- "So Green Mountain and K-Cups are strong. It is not growing as fast as it was but it's a healthy part of our overall shopper experience."
- "We worked hard to develop private labels purely to provide some real diversity in terms of pricing and even flavor. ... Our private label partners are extremely happy. They are giving us all the single-serve coffee we want and that part of the business is growing fast into the K-Cup world. It's not that it is cannibalizing K-Cups so much as that it's coming off close to zero a year ago and so any expansion there will look dramatic at K-Cups' expense."
- "If anything we are seeing people buy Keurig brewers now solely because the cost of the coffee has come down to something more like normal bulk coffee levels. Private label is driving Keurig sales, not the other way around."

Our private label partners are extremely happy. They are giving us all the single-serve coffee we want and that part of the business is growing fast into the K-Cup world. ... Private label is driving Keurig sales, not the other way around.

*Brand Manager
Regional Grocery Group*

Keurig Green Mountain

- “If Green Mountain cuts them out of the new brewers, it’s logical to assume that the partners can go on supporting the existing single-cup market forever with the capacity they have. Capacity won’t decline but the end user market will stop growing.”
- “Coffee prices have already come up so much to the consumer trading up to single-cup formats that everything is elastic. We could pass on any pressure we see from the wholesale side. Most likely what would happen is we would give up some wiggle room on the private label margins—which are higher than what we get from Green Mountain—and still have a low-cost alternative down there for price-sensitive shoppers. Green Mountain, meanwhile, would have to absorb higher coffee prices or look like even more of a high-cost alternative, and since everyone in their world follows their lead, the high end of the single-cup shelf would do all the pricing work for the rest of us.”

Competition from Green Mountain

- “They are great partners. We do not compete with them so much as provide the alternatives that they should provide. If single-cup coffee is a universal revolution and more than a niche, it has to be comparable in cost to traditional drip coffee. We provide that comparable alternative.”
- “The new brewers put them back at square one as a niche coffee. I am not optimistic about Keurig 2.0 for two reasons. First, we are seeing low-cost single-cup unlocking Keurig sales, so that would stop unless Green Mountain makes private-label-style pricing available on proprietary cups and I don’t see that happening. They would be pulling up the ladder behind the new brewer and limiting the growth of their platform. If anything, I fully expect proprietary cups to become more expensive because it’s a captive affluent market then. Second, they did all the work to popularize single-cup formats so every single person in the industry who wants those margins will partner with every single coffee maker company to provide a mass-market fit. Keurig becomes a generic brand name like Zipper or Kleenex. But Keurig the brewer actually loses share of the market.”
- “People like having options about which coffee to put in which brewing method. Single-cup doesn’t necessarily mean Green Mountain coffee in a Green Mountain cup in a Keurig machine.”

Partnering with Green Mountain

- “I would consider a Green Mountain license if they could make the math work the way they did with Costco. I need to keep my retail pricing under 40 cents per cup. We aren’t Costco as a pushy partner so that deal hasn’t happened.”
- “Our vendors gave us a product to fit our needs. With Green Mountain, I have the feeling it would be the other way around: we would have to bend our price strategy to fill a hole in their product line. I don’t think that’s right.”
- “From what I understand, licensing fees on proprietary cups would eat up all the profit in our private label pricing. We would have to double our prices to become K-Cup approved, which defeats the purpose. The danger here, of course, is that Green Mountain loses the grocery stores and then where can people buy their proprietary niche coffee?”
- “Maybe that’s the plan, to steer the captive market to direct sales. In the meantime, this might be why everyone in the K-Cup world has a premium or ultra-premium blend. You need a premium brand to justify ultra-premium pricing.”

We would give up some wiggle room on the private label margins—which are higher than what we get from Green Mountain—and still have a low-cost alternative down there for price-sensitive shoppers. Green Mountain, meanwhile, would have to absorb higher coffee prices or look like even more of a high-cost alternative.

*Brand Manager
Regional Grocery Group*

4. Specialty food buyer, regional gourmet retailer

K-Cup demand is lagging among high-end households willing to pay premium prices for bulk brewer-neutral grinds and roasts packaged for freshness and low environmental impact. Keurig 2.0 is unlikely to be received well in this market. Per-cup costs remain reasonable and most raw coffee purchases are hedged. While vendors still seem to have excess capacity, this may simply be an artifact of too many vendors throughout the channel. Private labels can always partner with Keurig but the new brewer makes this unlikely for now.

Current Sales

- “Coffee sales are up a fair amount, maybe 5% to 10% over this time last year. This is mostly due to a slight shift in our product mix as we take our audience upstream from the mass-market Keurig cups to private label reusable packs.”

Keurig Green Mountain

- “Our single-cup audience is not growing but the price per cup is on the rise. People here are willing to pay higher than Keurig pricing for better and fresher coffee in a recyclable format. The materials may actually be cheaper but the coffee is as I said better and they think it’s worth a premium to be able to compost the pack.”
- “Our K-Cup sales have become a very small part of the business. It was maybe as much as 10% of our coffee aisle when we started carrying them but now it’s two SKUs on about a foot of shelf. It’s considered a mass-market brand now. Maybe a premium mass brand, but still something you go to the supermarket if you want it, like Oreos. I suspect we will not be selling any K-Cups at all in a year.”
- “Cost per cup for us is actually about what Green Mountain would charge us for the same amount of coffee, only in improved environmental packaging. The consumer buys the reusable pack and then inserts the paper sleeve full of coffee. The sleeve is cheaper than all the foil and whatever Green Mountain packs involve, but the MSRP is a little higher, so our margins are well up in the 30% range.”
- “Vendor capacity is pretty good because these are basically retooled pods that have been in conventional pod brewers for years. There isn’t much added processing, you just pour the coffee in and seal the filter paper, then package and ship. As long as you have coffee and filter paper, you can make these pods. And because these are relatively niche brands, overall demand is not huge in terms of units they need to ship.”
- “Coffee pricing is not hurting us yet. We are able to absorb recent commodity price increases because our supply contracts were signed last year and run for most of 2014. After that point, we’ll have to see where we are.”

Our private labels have almost completely eliminated Green Mountain on our shelves. I think the new brewers will finish that process. My customers will hate the notion that they’re locking themselves into a particular brand or brand family just because they bought a particular appliance.

*Specialty Food Buyer
Regional Gourmet Retailer*

Competition from Green Mountain

- “Our private labels have almost completely eliminated Green Mountain on our shelves. I think the new brewers will finish that process. My customers will hate the notion that they’re locking themselves into a particular brand or brand family just because they bought a particular appliance. You can heat anything in a microwave. You can cool anything in your refrigerator. Being told what you can and can’t put in your coffee machine is alien to a lot of people and especially the more affluent people we deal with.”
- “I don’t know if the brewer will succeed or fail but it opts us out of their universe. We don’t sell a lot of very obviously bar coded products in general. We’re against that whole bar code aesthetic. We sell to people who want the very best coffee experience, and that’s usually a format where they can pick a brewer and pick a coffee pod that fits, with no fuss and room for variation. My customers like trying new configurations. They’re experimental. I don’t think the new Keurig brewer will allow that. It feels very industrial.”

We have no real incentive to partner with Green Mountain or to push our house brand closer to that world. Our customers use a lot of brewers. We don’t want to be trapped catering to just one.

*Specialty Food Buyer
Regional Gourmet Retailer*

Partnering with Green Mountain

- “I don’t know if we’re on Green Mountain’s radar. Our suppliers say they’ve tried talking to them about a Keurig-compatible system but the new bar code system put an end to that. There are apparently exclusivity issues where if you join the bar code world you can no longer sell generic all-brewer pods. I don’t know if that’s still the case but it wouldn’t surprise me.”
- “We have no real incentive to partner with Green Mountain or to push our house brand closer to that world. Our customers use a lot of brewers. We don’t want to be trapped catering to just one.”
- “The Peet’s news was surprising but I don’t think that story has played out yet. Look at Starbucks, which has always remained free to sell packaged coffee on any format. The Peet’s people are still trying to grow their brand. They want to be on every platform they can. If this is tying their hands to Keurig exclusively, I would be surprised.”
- “Our label terms are unlikely to change if our suppliers do anything with Green Mountain. We are unlikely to ask for a K-Cup product. It would clash with our stores at this point.”

Keurig Green Mountain

3) Retail Executives

All three sources said there is no excitement for the Keurig 2.0 and that current Keurig owners will not rush to upgrade to the new brewers. The Keurig and K-Cup environment in the non-grocery channel has peaked and these stores are changing their approach. Two sources said they are likely to drop K-Cups altogether to focus on the brewers, and the Keurig 2.0 has only hastened that decision as they do not want to deal with the hassle of new consumables for two different machines, or transition from one to the other. K-Cup sales have shifted significantly to the grocery channel. Unlicensed K-Cups are a threat to Green Mountain as each sale comes at the expense of the incumbent.

KEY SILO FINDINGS

Current GMCR Sales

- 2 of 3 said Keurig and K-Cups have peaked.
- 1 said Keurig and K-Cup sales are flat to up slightly.
- K-Cup sales are switching to grocery stores from department and home goods stores.
- 1 reported strong Keurig sales at the holidays.
- 2 are considering dropping K-Cups from their shelves and have already begun cutting back or eliminating reorders.
 - o They see the 2.0 brewer as a catalyst to cut K-Cups from their stores altogether.

Competition from Unlicensed K-Cups

- 3 said unlicensed K-Cups represent a threat to Green Mountain.
 - o 2 said sales are at grocery stores, not their stores.
 - o 1 said unlicensed K-Cups sell well in their stores and will be staying on their shelves.
- 2 said each unlicensed purchase occur at Green Mountain's expense.
- 1 said margins are better on unlicensed K-Cups.
- 1 said customers do not miss Green Mountain K-Cups when one gets dropped from shelves.

Keurig 2.0

- 3 said there is no enthusiasm for Keurig 2.0.
- 2 said Keurig owners will not upgrade from existing brewers for 2.0; sales will come from new customers.
- 1 said they prefer to upsell existing Keurig customers to specialty espresso machines and the like.
- 1 expects angry customers confused as to why 2.0 only accepts certain K-Cups and not others.
- 1 said the carafe feature is overrated and not enough to drive sales.

1. Kitchen appliance buyer for a retail chain

Residential Keurig sales have peaked and are even under pressure in upscale markets. While unlicensed cups are not prevalent or popular in the household retail channel, declining sales of proprietary cups indicate that consumers are buying their single-cup coffee in supermarkets where private label has gained a foothold. The chain is pulling away from coffee consumables in any event.

Current GMCR Sales

- "We are seeing a bit of a backlash against Keurig because of the environmental impact of the cups. It is almost like they were engineered to be non-recyclable. People who see on Facebook or whatever about the number of times those cups circle the world with trash every day are understandably concerned. And since those environmentally conscious people tend to be our best shoppers, it's not good for sales."
- "Keurig is probably flat across the chain and down in key places like the Bay Area and Manhattan. That might be saturation or the environmental effect, but either way we seem to have sold at peak levels there already and are now in a bit of a decline. Maybe the new brewer will help turn that around but I doubt it. The single-serving coffee shelf is already full of

We are seeing a bit of a backlash against Keurig because of the environmental impact of the cups. ... And since those environmentally conscious people tend to be our best shoppers, it's not good for sales. ... Having to swap in new cups may be our signal to drop the cups entirely. There's no reason to sell them in our stores.

Kitchen Appliance Buyer, Retail Chain

Keurig Green Mountain

copycats and some are actually higher quality. I would rather steer our shoppers to that part of the aisle.”

- “If we get a bump for the holidays it won’t be as big as last year. These machines are nice enough that they should last at least two or three years or longer. People who want them have them. People who still want them are waiting for a discounted price. Maybe they’ll get that on the old generation of Keurigs when they’re retired, but I don’t know what will happen there.”
- “The cups are a pain. ... Cup sales have trailed off too, which is surprising because it’s a consumable so people should be coming in week after week even after they have a brewer they like. My guess is that they’re buying in the supermarket like this was actual coffee. That’s a terrific thing. We actually didn’t bring in huge margins on those. It was more trouble than it was worth.”
- “Having to swap in new cups may be our signal to drop the cups entirely. There’s no reason to sell them in our stores.”
- “Our inventory is not huge because we stay fairly lean. I will probably not buy any more until the new generation of brewer comes out. We can make do with the inventory we have, push people to another location or the website, even recommend another company’s brewer if we need to do it.”

Competition from Unlicensed K-Cups

- “Unlicensed cups are getting a lot of play in the grocery channel. I see them when I go in and I see them in people’s baskets when I check out. ... We sell a few branded packs as an add-on and a convenience for people buying the brewers for the first time. As brewer sales plateau, cup sales are weakening. Maybe that’s because people no longer need to be trained where they can find their cups. They know already it’s sold in the coffee aisle of your grocery.”
- “I would think every third-party cup sold in the supermarket is a sale out of Green Mountain’s mouth. People only drink so much coffee. It’s a finite market.”
- “We will never have much in the way of private label but we might switch our Green Mountain cups to private label just to reward ourselves a little for providing the convenience in the first place.”

These machines are nice enough that they should last at least two or three years or longer. People who want them have them. People who still want them are waiting for a discounted price.

Kitchen Appliance Buyer, Retail Chain

Keurig 2.0

- “They’ll sell as well as any other upgraded appliance. People who needed a brewer will opt for the newest one with the most bells and whistles, so that will be the Keurig 2.0. That’s really it. Our current somewhat flat sales curve on the brewers swaps out the 1.0 for the 2.0.”
- “What I am not expecting is any rush to buy among those who already have brewers. There is no second revolution in coffee here, no one-time need to throw out a percolator or drip machine in favor of the new thing.”
- “I’m not hearing much backlash against the bar codes but the machines aren’t even on the market yet. Maybe they’ll work great, maybe everyone will be happy. Maybe not. Until the word of mouth starts one way or another, it’s not budging sales.”

2. Housewares marketing manager for a department store chain

Keurig has transitioned from a prestige item to a loss leader, with sometimes deep discounting helping to keep brewer sales steady. Cup sales have fallen and now play a negligible role in the chain’s overall single-cup ecosystem. Appliance-oriented retailers are using the transition to Keurig 2.0 to reevaluate previous decisions to sell the cups alongside the brewers. Supermarkets are already the primary cup sales channel and their natural interest in unlicensed products will drive them to reduce support for proprietary Green Mountain products.

Current GMCR Sales

- “I think the Keurig craze has run its course. Whether you want the novelty or the convenience or simply needed a new coffee machine, you’ve had plenty of chances to buy it. Now we are cycling in a lot more discounting throughout the brewer line because everyone knows the brand as a relatively popular appliance so we can bring people in on their name appeal. They don’t have to buy it and in fact we would almost prefer that they don’t at these sale prices.”

Keurig Green Mountain

- “The discounts are helping to get Keurig brewers into more households, though. Sales are flattening out again after being down maybe 5% for most of last year. The holiday deals helped turn that around and we are keeping them going. Don’t mess with what works!”
- “Sales of the packs have bottomed out for us at next to zero. It’s just an accessory we keep around stores until we sell out now, really. The website still carries them so we can point people to the site, but we are reclaiming shelf space that used to be used on those products for a broader assortment of beverage makers, both single-serving hot drinks and other novel appliances like soda machines, new blenders, specialized drink makers.”
- “We are probably going to use the changeover to the new pack format as a trigger for dumping the packs entirely in the brick-and-mortar locations. I think quite a few retailer are thinking in the same terms. Carrying the packs was not worth the effort as it was, and now managing what amounts to a manufacturer-motivated universal recall is as good an excuse as any to end that relationship.”
- “This time next year, I think the packs will be practically gone from our stores. The brewers can stay, especially if the new models generate any consumer buzz as a hot new iteration of the theme.”
- “Our inventory of old brewers is running low. We got a bit of a spike over the last month or so, probably due to promotional offers we are running but maybe because of an effort to buy non-protected units before the bar code system is in place. I’ve heard that’s happening in some quarters. People want the generic cups and the Keurig brand on the appliance, so their chance to get that ecosystem is running short now. We are not reordering. We are waiting for the new generation.”
- “If the new generation goes nowhere we will probably ask for as many of the old machines to sell to consumers who demand that generic ecosystem. Since we will have phased as far out of the packs as possible by that point, it won’t be like we are having to support two separate universes of packs, one with the codes and one without. We will just sell Keurig 1.0 and Keurig 2.0.”

Competition from Unlicensed K-Cups

- “Private label is obviously a threat. The packs are easily 1/3 the price of the official ones and offer better wholesale prices to people who sell them. Those are often the grocery stores. Grocers love private single-cup packs because they’re a higher price point, faster sell through and are in general a better deal for them than the old bulk coffee, and then the margins are higher than what they can wrangle from Green Mountain.”
- “I don’t know how much share private label has but it is growing at Green Mountain’s expense. If the third-party brands are locked out of the new brewers, it will only give the retailers and the manufacturers an incentive to fight as hard as they can for every cup they can squeeze out of the old brewers. Keurig may win the future but they are basically having to rebuild their share of the coffee market one new brewer at a time. The old ones will keep gravitating toward the cheaper packs from everyone else.”

Keurig 2.0

- “We are not hearing anything exciting about it from a retail perspective. I think it will be an evolutionary product for us, not the category creator that the first one was. The space is crowded now and a lot of entrenched coffee maker brands are selling more interesting small-serving appliances.”
- “What we are more excited about is upselling Keurig customers to mass-market espresso machines that actually have a similar form factor but a more open high end in terms of the coffee you can use and the beverage you get out. And they’re not restricted by vendor at all so Green Mountain has no home court advantage at all there. Of course, we don’t sell the coffee in any event.”
- “I think the Keurig is really training wheels for the higher-end coffee world. Putting bar codes on the machines to lock people out of the choice of which coffee to use—home roasts, specialty roasts, different grinds—seems to only trap

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Department Store Chain*

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*Housewares Marketing Manager
Department Store Chain*

Keurig Green Mountain

people in a product that isn't necessarily the top of the line. There could be some resentment there if the appliance can't keep up with people's education and tastes."

3. Merchandise manager, big box chain store

Enterprise coffee buyers are not eager to replace working equipment simply to satisfy Green Mountain's profit margins. Given increased acceptance of private label cups, break room managers are more likely to remain on unlicensed coffee and legacy brewers, then leave the Keurig ecosystem entirely when their hardware needs to be replaced. Single-cup coffee sales have plateaued and unlicensed products continue to capture share among price-conscious customers.

Current GMCR Sales

- "Brewers are flat, maybe up 2% to 3% at most across the channel. The push to single-cup break rooms has basically played out. If you haven't converted your coffee station by now, you've had every opportunity to do so over the last several years. Odds are good you're just not going to do it."
- "Cup sales are flat to slightly above brewer sales simply because there's a cycle where people consume more coffee early on when a Keurig has been installed, just for the novelty value or fun factor. On the other hand, we are seeing a few of our formerly captive smaller accounts stop buying the cups at all. It turns out they're going to other vendors to get cheaper cups."
- "I would think sales will stay on trend or even decline if there's trouble around the new Keurig system. I do not think there will be any kind of bump in sales of the new brewers. Absolutely nobody is asking us when they can buy the new machine. It has no consumer-facing incentive to upgrade at all, or at least none that has been effectively communicated to us retailers."
- "Retiring the old Keurig brewers and cups will be annoying. Our supply chain is pretty tight but there will undoubtedly be glitches at individual stores and various forms of waste. Multiply by every store we operate and every perfectly good brewer we have to retire due to Green Mountain's development path adds up to an actual concern."

Competition from Unlicensed K-Cups

- "Private label cups are hanging in there for us because customers like variety and especially the pricing. When they make a change, they'll simply add a new brand to the coffee shelf and see how it moves. If a brand doesn't rotate for them, they obviously don't order anymore because that part of the shelf is still full. If it rotates, they order more. If they cut a brand, they wait to see if anyone complains before permanently cutting it from the shelf. People are not complaining when Green Mountain gets cut."
- "In the meantime, simply having four or five types of coffee alongside the Green Mountain means that Green Mountain sales through us drop from 100% of the Keurig channel to 20% to 25% of the Keurig channel, more or less. The Green Mountain cups may cycle through faster than anything else because of the power of branding, but it actually doesn't happen often. Usually people will simply grab a cup. If they love it, they'll grab that brand again. If not, they'll pick another at random next time."
- "We are also hearing from break room managers that they will let Green Mountain run out and then their people will happily reach for the other cups on the shelf. People just want coffee. They're not terribly hung up on one true brand that must rule them all. If they're that invested in the brand, odds are good they are going to Starbucks or some other off-site vendor for a real coffeehouse brew, which kind of defeats the purpose of having an on-site break room at all."
- "Break room coffee is not supposed to be world-class anyway. It should be good but not expensive. It's a bulk purchase. Our people will gravitate toward the cheapest cups that look glitzy. That's private label so I would expect true private label to be the dominant coffee in our system by the end of the year."

Keurig 2.0

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*Merchandise Manager
Big Box Chain Store*

Keurig Green Mountain

- “I think the new brewers may be great but I still see very little reason for anyone to buy them unless their old system has broken down beyond repair. And the number of people who will innocently try the old cups in the new system over the first year after the changeover will create a significant stink.”
- “If you need carafe-style brewing as well as cup brewing, you already know it. Nobody is waking up and realizing that they’ve somehow ignored the need to brew a lot of coffee fast over the last few years. They’ve either abandoned the carafe model or else they kept their old station alongside the Keurig. Most people kept their old station. Adding a carafe is no real prize here.”
- “The best scenario is that people will quietly keep their old perfectly good Keurig brewer and buy new coffee cups that work on that system. It will be a non-event to those people. Sales will be unchanged and private label will keep taking share in that population because the copy protection is in the brewer, not the cup. No new brewer, no need for proprietary cups.”

4) Retail Store Personnel

Six of seven sources said the Keurig 2.0 will not be popular when it is released, especially among current Keurig owners. There is little incentive to upgrade and most who buy the brewer will be new to the single-serve platform. Even then, there will be confusion and disappointment at the closed nature of the brewer, causing difficulties for consumers and retail personnel alike. K-Cup sales are steady for three sources and higher for three others, including one source quantifying it as a 10% to 15% increase. One source said sales are down dramatically as their retailer has stopped reordering K-Cups and intends to phase them out of the store altogether. Grocery stores have become the main avenue for K-Cup sales. Unlicensed sales are low at these stores as well.

KEY SILO FINDINGS

Current GMCR Sales

- 3 of 7 said K-Cup and/or Keurig sales are higher year to year, with one estimating it at a 10% to 15% increase.
- 3 said sales are holding steady compared to a year ago.
- 1 said sales are down dramatically since K-Cup reorders have been dropped in more than half the chain’s stores.

Competition from Unlicensed K-Cups

- Only 1 of the 4 sources who sell unlicensed K-Cups said sales are increasing from a year ago.
- 1 said sales were flat, and 2 others said sales were minimal and trailing K-Cups.

Keurig 2.0

- 6 said the 2.0 is not going to ignite the market for Keurig brewers.
- 5 said customers are unlikely to upgrade from their current brewers, leaving 2.0 sales predominantly to new Keurig customers.
- 4 said the closed brewer will cause problems for customers and a headache for store personnel with returns and complaints from unsuspecting buyers.
- 1 said the carafe feature will help sell the brewer.

1. Manager at a Bed Bath & Beyond Inc. (BBBY) in Los Angeles

Consumers likely will not trade up to the Keurig 2.0 just to get a larger brew option. Sales for K-Cups are up 10% to 15% from a year ago. Expectations are high for an increase in sales, as inventory is typically re-stocked every Monday with K-Cups constituting 75% percent of the single-cup brew shipments on average. The popular model is the single-serve Special Edition, right now on sale. Private label sales are good, but not outperforming the Green Mountain combo packs.

Current GMCR Sales

- “K-Cups are selling very well, somewhere between 10% and 15% higher from this time last year. It will get higher this year. We have a new shipment [of K-Cups and unlicensed brands] every Monday, and at least 75% of it is K-Cups. We always run out of some of the flavors before the next one. Usually it’s the combo packs and [Donut House](#) people want.”

Keurig Green Mountain

- “The best-selling machine is the Special Edition single brewer. I think people prefer it because its price point is great and they really still want the simplicity of the single-brew option.”

Competition from Unlicensed K-Cups

- “We sell a few of the independent brews but they don’t move as fast as the Green Mountain brands. Shelf space is dominated by the K-Cup roasts so I wouldn’t say there’s much of an impact at all from competition. It seems to be limited.”
- “The Keurig brands are the best sellers in this store. They always have been.”

Keurig 2.0

- “We haven’t heard much at all about the new machines or when we are getting them. The sale we are having now on the Special Edition and other models is not related to that. We’re just running a promotion.”
- “I would imagine those who have Keurig machines now will keep what they have for a while unless their machine is more than two years old or so, or they want something that brews a bigger cup of coffee. But the truth is, most people buy the Special Edition because they really want just a single-cup brewer.”
- “I don’t think consumers will be confused but I think it will be important to make sure the owners of the older machines can get the K-Cups they want without having to buy a new machine.”

I would imagine those who have Keurig machines now will keep what they have for a while unless their machine is more than two years old or so, or they want something that brews a bigger cup of coffee.

Manager Bed Bath & Beyond
Los Angeles

Reporter Observations: The Keurig display is front and center at the door to this store, with the Special Edition and K-Cup sales promotional signage posted prominently. There was absolutely no foot traffic on a Monday at 9:30 a.m. in the aisle where other machines (and Keurig) are stocked and displayed, but a few customers were shopping the display at the entrance for K-Cups.

2. Housewares sales associate at a Macy’s Inc. (M) in Los Angeles

Customers loyal to Keurig will trade up to the 2.0 if they have to, but will prefer to use their older machines if they can. They won’t switch to another brand. Sales for K-Cups are about even from a year ago. The Special Edition single-serve brewer is the best-selling machine in the section and the Green Mountain combo packs are the best-selling K-cups. There are not any unlicensed brands for sale in this store. Unlicensed brands will probably have to join Keurig to stay in the game.

Current GMCR Sales

- “Sales are about where they were a year ago. We sell more Keurig machines than the other coffee brewers in the store. The older coffee makers are not doing as well, although we will sell some Cuisinart brewers from time to time.”
- “The [Keurig] Special Edition single brewer is our best-seller. After that, people usually go for a Cuisinart coffee brewer. The [Nespresso](#) [Nestle S.A.] machines are somewhat popular, but they are very expensive, so not as popular as the Keurig machines. Also, we do have a lot of Nespresso machine owners who want to buy replacement pods, but we don’t carry them in the store.”
- “We don’t sell many of the Keurig accessories though at all. It’s mostly the K-Cup combo packs.”

Competition from Unlicensed K-Cups

- “I’m not really aware of how the other guys are doing. I don’t think we plan on carrying any of the competitors right now. They might have to partner with the other company to keep their K-cups in the game.”
- “The shelves are pretty much dominated by Green Mountain and Keurig because that’s the only real individual pod brewer we sell besides the Nespresso.”

Keurig 2.0

- “It’s possible the Keurig customers will trade up to the 2.0 because they are so well connected to the brand. But if their current machine is still working, they might just wait until their machine is older and then trade up, but I doubt they’ll buy another model. I don’t see them switching to another brand because of the changes.”

Keurig Green Mountain

Reporter Observations: The store has a very small and quiet section, but Keurig dominates the coffee brewer and accessories display area. There were not any customers in the section whatsoever on a Sunday at 4:30 p.m. The store recently ran a sale on all Keurig machines but prices are back up to normal retail levels.

3. Housewares manager at a J.C. Penney Co. Inc. (JCP) in Kansas City, MO

Consumers won't take too kindly to the Keurig 2.0 if it means they have to buy it to accommodate K-Cups in the future. In fact, the move is kind of "dirty" and tests the brand loyalty of Green Mountain.

Current GMCR Sales

- "Sales are steady compared to a year ago, not much change."
- "I look for sales to remain steady the rest of the year if we can keep K-Cups in stock."
- "We are low right now. Our recent orders for neither the K-Cups nor our private labels have been filled. I am not sure why."
- "Our shelf space is half of what it was because we can't get the cups in."
- "We don't discount K-Cups like we do other products. We mark them down 20% sometimes, but other products will go down 40% when they are on sale."

Competition from Unlicensed K-Cups

- "Private label sales are steady compared to a year ago."
- "We don't stock much in the way of private labels here, except [Gevalia](#)."
- "We are out of Gevalia right now. They have not filled our last order."
- "Shelf space for the private label is low. We don't really carry a lot of coffee. We have it mostly for people who buy a coffee maker and want some coffee to go with it while they are here."
- "We sell some of the Gevalia so it takes sales from K-Cups but there has not been a trend."

Keurig 2.0

- "I was unaware of the Keurig 2.0."
- "I don't see how it is going to help Green Mountain. Customers are not going to have that much brand loyalty to go out and get a new coffee maker right away."
- "People will be disappointed that they bought a coffee maker and now the type is changing and they have to buy another one. I think it's kind of dirty."
- "It might be hard on the private label coffee sales over time if they won't fit the new coffee makers. There are other coffee makers, though. We have a [Mr. Coffee \[Jarden Corp./JAH\]](#) and [Cuisinart \[Lifetime Brands/LCUT\]](#)."
- "I can't see that a lot of people will trade up to the new model right away. I have a Keurig and I won't buy the new one."
- "I think people will be confused as well as disappointed."

I don't see how it is going to help Green Mountain. Customers are not going to have that much brand loyalty to go out and get a new coffee maker right away. ... I think people will be confused as well as disappointed.

*Housewares Manager, J.C. Penney
Kansas City, MO*

4. Shelf stocker/clerk at a Target Corp. (TGT) in Kansas City, MO

The new Keurig will catch consumers by surprise and could hurt sales for everybody. Sales of K-Cups and unlicensed brands are up from a year ago, and extra shelf space for cups has been added in the housewares part of the store.

Current GMCR Sales

- "Sales are higher than last year. I could not estimate the percentage, but we are selling and stocking more K-Cups."
- "Sales should be up all year, just as they are now."
- "We don't have an inventory problem. We can get what we need. We do get different flavors in some seasons of the year."
- "Our shelf space for K-Cups has grown. We not only have about 12 feet of shelf space for K-Cups and private labels in the grocery section, but we also sell them now in the appliances section where we sell the Keurigs and other single-cup servers."

Keurig Green Mountain

- “We have a lot of sales on a lot of varieties of K-Cups right now. Many are marked down \$1 a box. I don’t recall if we had as many sales a year ago as we do now.”

Competition from Unlicensed K-Cups

- “Private label sales are probably higher than they were a year ago, too. I don’t pay a lot of attention to the private labels vs. K-Cups.”
- “We have a good stock of all labels, private and otherwise.”
- “I can’t speak to the how private label sales are impacting K-Cup sales. We sell a lot of both.”

Keurig 2.0

- “I did not know about a Keurig 2.0. ... It will surprise some people.”
- “It’s hard for me to say how the new coffee maker will impact sales of K-Cups and private labels. It’s speculation.”

5. Home department associate at a Macy’s in Wisconsin

It will be hard for Keurig to push an entirely new model since so many of their longtime models are out there and they are still very popular. Green Mountain will have an uphill battle with how to position its Keurig 2.0 model due to the continued popularity, widespread acceptance, and strong sales of established Keurig brewers. This store recently learned that it will no longer sell K-Cups at its location, as have many other Macy’s. Only 300 of Macy’s 800-plus stores will carry K-Cups; those who do will have larger selections. Both customers and employees are disappointed by this development, especially since Keurig sales were through the roof at Christmas. Macy’s does not carry unlicensed brands. This source has not received any notice of the 2.0 and does not think it will be added to their stores. The carafe capability of the 2.0 is not seen as a positive.

Current GMCR Sales

- “If you average it out, we sell one Keurig machine daily. The Elite is their top selling model as it is a step up from the mini and it is non-programmable, which translates into it being easy to use.”
- “We were selling as many K-Cups as we were last year up until they stopped restocking us a month or so ago.”
- “Sales of K-Cups will be non-existent for the rest of the year. We were just informed our store will no longer be carrying K-Cups. We will still have the machines but no K-Cups.”
- “All we have left are a few boxes of Pumpkin Spice. We have been selling through it as it was marked down and we did not know why we were not getting refilled.”
- “Moving forward, only 300 out of our 800+ stores will be carrying K-Cups. That means just over a third of our stores will have them. Two thirds are left hanging.”
- “Our stores that will still carry K-Cups will have a bigger selection that they did. Most stores had a somewhat small selection.”
- “Employees are not happy at all about this change. ... Customers want to purchase K-Cups at the same time they purchase their machines. ... Now, customers will have to go across the street to Bed, Bath & Beyond for their K-Cups.”

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Home Department Associate, Macy’s Wisconsin

Competition from Unlicensed K-Cups

- “We did not carry independent label K-cups. All of our K-Cup product was Green Mountain.”
- “I have seen independent label K-Cups at the grocery store but beyond that, I don’t know about them.”
- “People like and trust the Green Mountain K-Cups because you get the exact same cup of coffee every time. The flavor is consistent and I don’t know if independent brands can keep up that same quality.”

Keurig 2.0

- “I did not know anything about the Keurig 2.0. We have not been sent anything on it.”
- “Not being able to use independent K-Cups is not a positive for the 2.0. It will hold it back. Consumers will just buy the older models. They don’t want limitations on what they can use.”
- “The K-Cup limitations will most likely confuse consumers and cause returns which is aggravating for them and problematic for us.”
- “Being able to make a carafe of coffee with the 2.0 is not a practical or necessary feature. People who use Keurig’s don’t need that much coffee in one setting. That is one reason why Keurig is successful. There is no waste.”

Keurig Green Mountain

- “If you can make a carafe with the 2.0, businesses and offices might like the Keurig 2.0.”

6. Housewares manager at a Macy's in South Florida

The release of the Keurig 2.0 is expected to be received well, primarily by new Keurig owners seeking the dual coffee making options it offers. The 2.0 incompatibility with unlicensed K-Cups will not hurt sales of the machine and will only help K-Cup sales due to Green Mountain's large range of K-Cup flavors and popular licensed brands. Sales for K-Cups are steady and expected to remain the same through 2014. New machine releases will drive K-Cup purchases from new owners at the time of machine purchase. Competition for Green Mountain brands is nonexistent at Macy's as they only carry licensed brand K-Cups.

Current GMCR Sales

- “Sales of K-Cups are steady. Our K-Cup inventory got cut way back around November so our selection is slim but they still sell.”
- “2014 sales will continue as is for K-Cups. Holiday time we see a surge of K-Cup sales or when a new machine is released customers stock up.”
- “Sometimes a flavor will get discontinued and that hurts Green Mountain because customers don't like inconsistency.”
- “We need more flavors and more K-Cup inventory. We can't keep enough out on the floor and are restocking daily, sometimes twice a day.”
- “Prices are set across the board on the K-Cups but they do go on sale. Right now they are 33% off.”

Competition from Unlicensed K-Cups

- “We only carry K-Cups that are for the Keurig. No unlicensed brand K-cups are here.”

Keurig 2.0

- “The 2.0 sounds great. A lot of people want a hot pot of coffee all day long. The option to have both will help it sell and will be a big factor for new buyers. Current Keurig owners may trade up, but most won't because they got the single brew for a reason. The pot of coffee customer is different than the single brew. I think the combo customer will be mostly new buyers who want both features from a coffee maker.”
- “The 2.0 will lock Keurig users in to Green Mountain K-Cups. It will only help to sell more of them. I am sure their sales will increase.”
- “The fact that they won't work with unlicensed K-Cups is a downfall but not a big one. Green Mountain K-Cups are full of choices. Their brands are popular and well known. They have so many choices that it won't be a deterrent.”
- “If Keurig 2.0 works with the K-Cup filter so owners can use their own ground coffee, which will make up for any lost sales over non-compatibility.”
- “Unlicensed brand K-Cups may have a hard go of it with the new machine. When they become harder to find for those current owners it may push them to switch to Green Mountain K-Cups.”

7. Sales associate at a Bed Bath & Beyond in Wisconsin

Green Mountain is compromising its position as the single-serve leader by trying to branch out with the Keurig 2.0. Keurig remains an integral part of this Bed Bath & Beyond's business and K-Cups sales have increased since last year. The K-Cup wall must be refilled daily and the entire inventory is Green Mountain product. Nearby retailers, like Macy's, reducing their K-Cup inventory should further help this store's sales. The source has no knowledge of the Keurig 2.0 but based on the lackluster response to the Vue, the 2.0 is not expected to outperform the older, more accepted models like the Elite.

Current GMCR Sales

- “We are selling more K-Cups than we were a year ago. People buy boxes and boxes of them. There is a lady here now with at least 10 boxes in her cart.”
- “It seems other retailers aren't carrying what they used to with K-Cups. The last time I was in [Kohl's \[Corp./KSS\]](#), I noticed they only had a few flavors and they used to have a big end-cap of K-Cups.”
- “I had not heard about Macy's discontinuing K-Cups. Since they are so close to us, that should send some customers over here now to get them.”

Keurig Green Mountain

- “We expect sales of K-Cups to remain strong this year. Keurig is a big part of our business. We are the #1 retailer for K-Cups. That is what we intended when we introduced the line and we want to keep it that way.”
- “Inventory of K-Cups is good. I have to refill the wall every day of the week.”
- “When we first started carrying K-Cups, I would refill stock once a week. It has really, really grown.”
- “When we first got Keurig, we had a few shelves of K-Cups. Then it expanded to one four foot shelf then another and so on. Now, K-Cups are an entire wall and we have more flavors than anyone else.”
- “We have the best prices for K-Cups, especially combined with a coupon.”

Competition from Unlicensed K-Cups

- “All our K-Cups are Keurig product less the [Tim Horton’s \[Inc./THI\]](#) box we just got in. Otherwise, it is all Keurig.”
- “We don’t carry an inventory of unlicensed brand K-Cups.”
- “We just have one facing of an unlicensed brand—Tim Horton’s.”
- “The one facing has no effect on Keurig sales.”
- “Customers do not ask for unlicensed product. They generally comment about the great selection we have.”
- “People typically stick to their favorites but do venture out to try a new flavor occasionally.”

Keurig 2.0

- “I have not heard any news regarding a new Keurig machine.”
- “Since we are the major retailer for Keurig, I am sure we would carry any new machine they introduce. We have the Vue but their sales in no way compare to the older models.”
- “I’m not sure that the Keurig 2.0 will have any effect on unlicensed brands since we don’t sell them.”
- “It is hard to say who will buy the 2.0. Customers like the product now. The Elite has consistently been our top seller. The Mini does well, too.”
- “I don’t see owners trading up to another machine. They did not do so with the Vue. Most people that buy it, are getting Keurig for the first time. I would be the same with the 2.0 or they would buy it as a replacement for a malfunctioning machine.”
- “We don’t get many returns on Keurig but if they make a unit that rejects unlicensed K-Cups, it could cause issues.”
- “Making a carafe of coffee is not a big enough selling point for the 2.0. People would use a traditional coffee maker if they want a large pot. That is not what Keurig is about.”

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*Sales Associate, Bed Bath & Beyond
Wisconsin*

5) Grocery Store Personnel

All six sources said Keurig 2.0 will not be very successful, nor will it entice existing Keurig owners to upgrade. Customers will be confused and upset with the closed system, and returns of the brewer and K-Cups are expected. Four sources said K-Cup sales in the grocery channel are growing from a year ago, with one estimating a 10% increase. Only two sources said unlicensed brands are taking share from Green Mountain, though grocers do not want to give up additional shelf space to Green Mountain.

KEY SILO FINDINGS

Current GMCR Sales

- 4 of 6 said K-Cup sales are higher than a year ago, with one source estimating a 10% increase.
- 2 said sales are even with last year.
- Peet’s and Starbucks are the top sellers.

Competition from Unlicensed K-Cups

- 2 said unlicensed K-Cup sales are taking share from Green Mountain and sales are higher than a year ago.
- 4 said sales are even with last year.
- 1 said Marley Coffee was a new unlicensed brand and was off to a good start.

Keurig Green Mountain

Keurig 2.0

- 6 said Keurig 2.0 will not attract existing Keurig owners to upgrade.
- 2 said it won't eliminate unlicensed brands and consumers will find a way to continue with their unlicensed brands.
- 1 said it will encourage new independent brewers to emerge.
- 4 said it will result in consumer backlash and confusion with an increase in the number of returns when consumers discover they can't use it for unlicensed K-Cups.
- 1 said Green Mountain will benefit since 2.0 will limit use of unlicensed K-Cups.

1. Floor manager at a Ralph's in Los Angeles

Unlicensed K-Cup brands likely will find a way to come up with their own brewers and/or possibly partner with Green Mountain, but it is unlikely customers are going to be quick to upgrade to Keurig 2.0. Sales for K-Cups are about the same as a year ago with no indication of increases. Sales for ground coffee are strong and steady with stock often running out. Sales seem to surge for Starbucks and Peet's K-Cups whenever they put them on sale and, with the exception of Starbucks, all brands are currently on markdown with a club card.

Current GMCR Sales

- "Sales for the K-Cups are not any different in this store than they were a year ago. They don't sell nearly as fast as the ground coffees do. Peet's ground coffee is the best-selling coffee in the store."
- "I don't expect [sales for K-Cups] to change much."
- "They sell more often when we have specials or club card deals, like now. Starbucks is usually the biggest seller when we have specials on it."

Competition from Unlicensed K-Cups

- "I think Peet's will still be the best-seller even if they now partner with Keurig."
- "Most of the K-Cups we sell tend to be either the Starbucks or Peet's. They don't move that fast though. Mostly it's the ground coffees we run out of in this store."

Keurig 2.0

- "It wouldn't surprise me if another competitor came out with their own machines because they all want to stay in the game. I do not see unlicensed brands disappearing. Some may join with Keurig but I can also see some of them doing their own thing to remain independent."

Reporter Observations: The K-Cups in this store are hidden by a display for cereal, which considerably covers a good chunk of Green Mountain brands. Gevalia and [\[The Kroger Co./KR\]](#) brands are given eye-level placement. All brands were on sale for \$4.99 with a club card and purchase of two boxes, except Starbucks and [Tazo](#) (a division of Starbucks). One customer was purchasing Green Mountain K-Cups on a Monday at 7:30 p.m. She bought two boxes.

2. Floor manager at a Vons [Safeway Inc./SWY] in Los Angeles

Keurig could see a backlash if it makes the 2.0 version difficult for existing machine owners to continue using their preferred brands. Sales for K-Cups are significantly higher in this store than a year ago, with Starbucks the best seller. Unlicensed [Marley Coffee \[Jammin Java Corp./JAMN\]](#) is doing well after just being added to the store shelves. Customers likely won't spend more to stay locked into any particular brand of K-Cup, as there are so many to choose from now. Peet's has been a top competitor which will now benefit Green Mountain.

Current GMCR Sales

- "K-Cup sales are definitely way up from where they were a year ago. Starbucks and some of the Green Mountain brands are good sellers, with Starbucks probably at the top."
- "I think sales will continue to trend upward because more people are buying them now and they are popular."

K-Cup sales are definitely way up from where they were a year ago. Starbucks and some of the Green Mountain brands are good sellers, with Starbucks probably at the top.

Floor Manager, Vons
Los Angeles

Keurig Green Mountain

- “Starbucks pays for key position on the shelves, so they have new end-cap display that is going in a lot of the Vons premium stores. We’ve had it here now for about two months and it’s doing very well.”

Competition from Unlicensed K-Cups

- “Peet’s has always been a good seller in the store, so I expect that will bode well for Keurig.”
- “We just got Marley in a few weeks ago. That’s doing pretty well so far, but I think their ground coffee bags are selling faster than the K-Cups.”

Keurig 2.0

- “I’m pretty sure consumers are smarter than that. I would imagine if they don’t have to buy a new machine, they’ll buy other K-Cup brands to keep using the one they have, rather than spend more money.”
- “I see why Keurig would be concerned about competition, but that’s to be expected with anything that’s selling well. They might lose customers if they force existing ones to purchase a new machine. Maybe they should consider a trade up coupon to make it affordable.”

Reporter Observations: This store recently added a Starbucks end-cap display, complete with Keurig machine, K-Cups, mugs, regular Starbucks ground roast blends and promotions for Starbucks new Spring Blend. It is very high-end and all the Starbucks K-Cups are currently on sale, as well as the others in the section. Marley Coffee is featured as a new item with special tags and good shelf space. Green Mountain brands are on the bottom of the shelf and, just as was the case in Ralphs, almost hidden by a display box. There was no foot traffic in this section on a Thursday at 5:30 p.m.

3. Manager of a Hy-Vee outside Kansas City, KS

The Keurig 2.0 will not be taken well by customers who spent \$200 on the previous model. Customers will continue buying unlicensed brands that work in their old machines. Sales of K-Cups and unlicensed brands are up about 10% this year.

Current GMCR Sales

- “Sales are definitely up. I would say about 10% compared to the first quarter a year ago.”
- “That 10% increase should hold up all year. Coffee sales are not very seasonal.”
- “Inventory is good for all the K-cups. The only thing we have run short on is hot cocoa.”
- “We increased shelf space earlier this year and I am planning to do it again soon. We have about 12 feet now, plus some of our Hy-Vee cups in an additional place up front.”
- “We don’t discount Green Mountain as often as the other brands. Last week, we did have some of them marked down from \$7.99 to \$6.99. Our own Hy-Vee brand is on sale now for \$4.99.”

Competition from Unlicensed K-Cups

- “Private label sales are up about the same rate as the others, about 10%.”
- “Inventory is good, we don’t empty out.”
- “Shelf space for the private labels has remained stable. We give most of the private label shelf space to our own Hy-Vee brand. Green Mountain gets the same shelf space as the Hy-Vee label, and more than any other K-Cup.”
- “Private labels are cutting a little bit into K-Cups.”
- “We see a lot of repeat private label customers, the demand is pretty stable. Some go back and forth between those and Green Mountain.”

Keurig 2.0

- “I have not heard about the Keurig 2.0. I do know that the last brewer they came out with, the Vue, did not sell that well.”
- “I’m not sure the Keurig 2.0 will be a big success. People who spent \$200 on a brewer are going to want use that as long as they can. People will keep buying the cups that fit that older model.”
- “It’s hard to predict how the new brewer will impact sales of private labels in the long run.”
- “I do think customers will get confused if they see the new brewer won’t accommodate private labels.”

Sales are definitely up. I would say about 10% compared to the first quarter a year ago.

*Manager, Hy-Vee
Outside Kansas City, KS*

Keurig Green Mountain

4. Manager of a [Hen House Market](#) outside Kansas City, KS

Customers will be upset if they buy a Keurig 2.0 and it will not brew the K-Cups they are accustomed to using. Keurig 2.0 is not likely to be attractive to those who already own a Keurig machine, as upgrades will be unlikely. Sales of K-Cups and private labels have leveled off after rising last year. Price is a major driver of purchase trends as customers will vary their purchases between licensed and unlicensed K-Cups depending on what is on sale.

Current GMCR Sales

- “K-Cup sales are pretty steady from a year ago. They were up last year and have leveled off.”
- “Sales should stay about the same all year.”
- “The Green Mountain brand is not a big seller for us, not as much as some of its other K-Cups. [Maxwell House](#) [Kraft Foods Group Inc./KRFT] is also not a big seller. Among the better sellers are [Caribou \[Coffee Co. Inc./CBOU\]](#) and Starbucks.”
- “Our shelf space has remained the same as last year, when we increased it.”
- “We don’t have a lot of markdowns on the K-Cups; there is none right now.”

Competition from Unlicensed K-Cups

- “Sales of private labels are also steady, not much change from last year.”
- “Inventory is not an issue with private labels.”
- “Private labels don’t seem to be cutting into K-Cups any more than usual.”
- “We find that people go back and forth between the private labels based on whether something is on sale. They may prefer certain brands but will switch to sale items.”
- “Right now, the only single-serving packs on sale are [Superior Coffee \[Roasting Co. Inc.\]](#).”

Keurig 2.0

- “I had not been told about the Keurig 2.0”
- “The new coffee maker won’t be good for the private labels if people convert.”
- “People will get mad if they get the new brewer and can’t use all the available cups.”
- “It’s hard to say if people will trade up to the new brewer. It seems that most people who want a single-serve brewer have bought one by now. We rarely sell a brewer anymore.”

People will get mad if they get the new brewer and can't use all the available cups. ... It's hard to say if people will trade up to the new brewer. It seems that most people who want a single-serve brewer have bought one by now. We rarely sell a brewer anymore.

*Manager, Hen House Market
Outside Kansas City, KS*

5. Associate at a [Publix Supermarkets Inc. \(PUSH\)](#) in South Florida

The 2.0 is expected to benefit Green Mountain sales and could slow sales for unlicensed brands. K-Cup sales are higher than last year. Green Mountain inventory has increased, as have unlicensed brands, including the Publix store brand. Green Mountain holds the largest selection and Starbucks K-Cups are the top seller.

Current GMCR Sales

- “Sales on K-Cups are good. They are the new thing and popular. We are selling more than last year. We carry a lot more of them than last year, too.”
- “We stock them pretty heavy. We carry a lot of their flavors and they take up a lot of shelf space in the coffee aisle.”
- “Publix doesn’t even sell coffee grinders anymore.”
- “Starbucks is the most popular K-Cup we sell here.”
- “They go on sale, the cost goes down by \$2.00-\$3.00. They move really fast.”

Competition from Unlicensed K-Cups

- “We added a few unlicensed brands this year. They sell ok. Publix K-Cups sell just ok.”
- “Inventory is fine. We don’t reorder those brands as much as those from Green Mountain.”
- “We have 6 unlicensed K-Cups compared to 24 Green Mountain flavors. The effect is not big, if at all, against Keurig.”
- “It is more flavors and teas that I get asked for. Not any specific brands. Starbucks and Dunkin’ Donuts are so big and they sell great along with the Green Mountain flavors.”

Keurig Green Mountain

Keurig 2.0

- “The 2.0 sounds great. I think it will sell.”
- “Customers will not buy the other K-Cups if they won’t work in the 2.0, so Green Mountain will benefit.”
- “Green Mountain has a big selection. They are hard to compete against. Unless a customer is really set on a coffee that Green Mountain doesn’t make, there is no reason to buy another brand. It could affect the other brands sales if now those few brands are not compatible with the new machine.”
- “Why replace a good thing? Customers won’t trade up unless they really want both features.”
- “People will return the K-Cups that won’t work rather than take the machine back. Unless they really love a brand Green Mountain doesn’t make.”

6. Manager of a [Piggly Wiggly Midwest LLC](#) in Wisconsin

The introduction of the Keurig 2.0 will prove to be a challenge for Green Mountain, especially if the grocers are asked to increase their shelf space. Consolidation will be difficult and customers could also react negatively to the 2.0 with its K-Cup limitations. Overall K-Cup sales are up year to year, though Green Mountain K-Cup facings are down by three from Oct. 2013 while unlicensed K-Cup facings increased by five. Last week’s order nearly doubled from the average weekly 24 cases to 44 cases due to promotion prices. Green Mountain sales are expected to be stable for the remainder of 2014, with possible growth in unlicensed brands primarily due to their lower price points.

Current GMCR Sales

- “Compared to a year ago, Green Mountain K-Cup sales are up a bit. But, compared to six months ago, they are the same.”
- “K-Cup sales are the strongest when they are on promotion.”
- “In a typical week, we get 8 cases, 6 boxes/case, three times a week or 24 cases/weekly. Last week, due to the sale, I had to order an extra 20 cases plus I had some extra stock in the back.”
- “During the designated weeks when K-Cups are on-sale, the order and sales nearly double.”
- “K-Cups have reached their plateau. I noticed it happened sometime over the last six months.”
- “For the rest of the year, I expect sales for K-Cups to be flat. Levels will stay where they are now.”
- “Inventory is good for Green Mountain K-Cups. Two Bigelow tea facings are out of stock. Everything else is stocked.”
- “Now, 45 of our total 70 K-Cup facings are Green Mountain product. Last October, it was 49 out of 69 so Green Mountain lost three [lost four but added one] facings to independent labels over the last six months.”
- “Shelf space has not really changed in the last six months for K-Cups overall. We went from 69 to 70 total facings.”
- “Prices for Green Mountain product have been stable. I have not seen any significant increases lately.”

We have seen more growth over the last year with independent label K-Cups versus Green Mountain K-Cups. ... By the mere fact that they cost less, independent labels are taking business from Green Mountain K-Cups.

*Manager, Piggly Wiggly
Wisconsin*

Competition from Unlicensed K-Cups

- “We have seen more growth over the last year with independent label K-Cups versus Green Mountain K-Cups.”
- “Private label inventory is fine, same as Green Mountain. We refill the area three times a week.”
- “Out of 70 total facings for K-Cups, 25 are independent brands. Last October, it was 20 out of 69 total facings.”
- “Since October 2013, we added the independent label, Hills Bros. We have four facings for them.”
- “By the mere fact that they cost less, independent labels are taking business from Green Mountain K-Cups.”
- “Why would a customer pay \$7.85 for a box of 12 Green Mountain K-Cups when they can get our premium brand, [Wide Awake](#) for \$5.85 for a box of 12. \$2 is a big difference. People are all about the price.”
- “I am not hearing customers ask me for more independent label K-Cups. But, just last week, a customer told me the Wide Awake brand is her favorite, out of all the Green Mountain flavors and independent labels. It is our top selling brand.”
- “Customers who purchase independent labels do so on a regular basis.”

Keurig 2.0

Keurig Green Mountain

- “The 2.0 could be bad for Green Mountain. It has the potential to anger a lot of retailers. If they have a different sized K-Cup, retailers are not ready or willing to give up another four foot shelf to stock them. It won’t happen.”
- “Customers won’t buy the Keurig 2.0. What is the point? Especially if you cannot use independent label K-Cups in them.”
- “I don’t see the introduction of the 2.0 as a threat to our positive independent label K-Cups sales.”
- “For the consumer, as long as we are carrying the typical K-cups that match all those machines out there, that is what they are going to buy.”

6) Online Distributors

Sources were split as to the effect of the Keurig 2.0. Three of five believe it will not have a negative effect on unlicensed brands as the closed system will be enough to turn customers away from upgrading to the new brewer. Two others said the new brewer will keep unlicensed K-Cups at bay, forcing them to partner with Green Mountain if they want to stay relevant. Three sources said unlicensed sales are increasing and challenging Green Mountain, while two others did not comment. Two said unlicensed brands are taking share from Green Mountain, including one source who is in the process of dropping Green Mountain altogether because of the negative way the company treats its vendors. Only one source reported an increase in K-Cup sales, estimating it at 10% year to year.

KEY SILO FINDINGS

Current GMCR Sales

- 2 of 5 said K-Cup sales were decreasing and losing share to unlicensed brands.
 - o 1 is intentionally moving away from Green Mountain because of how it bullies vendors.
- 1 said sales were steady.
- 1 said sales were up 10% year to year.
- 2 renewed their contracts with Green Mountain.

Competition from Unlicensed K-Cups

- 3 said unlicensed sales are on the rise and are more innovative than Green Mountain.
- 2 did not comment.

Keurig 2.0

- 3 said the new brewer will not have the desired effect of hurting unlicensed K-Cups because it will turn people off based on its closed system.
- 2 expect Keurig 2.0 to harm unlicensed K-Cups and result in an increase in partnerships with Green Mountain to stay active.
- 1 said retailers and customers will be equally upset because of the confusion the new brewer will cause.

1. CEO of an online distributor with an exclusive Green Mountain contract; repeat source

The Keurig 2.0 will increase Green Mountain sales by up to 25% initially and will halt sales of unlicensed K-Cups over time. Consumers will be divided on the brewing issue of the new machine, but Keurig will need to be firm with retail stores such as Bed Bath & Beyond. His local Green Mountain sales are up 10% year-to-year, although internet sales have been flat and will continue to be even in 2014 due to competition with local retailers. Peet’s made a smart move by partnering with Green Mountain, and both companies will benefit. Unlicensed brands should realize that they will also profit from Green Mountain’s marketing muscle. His company has had problems with Green Mountain, but recently renewed its contract.

Oct. 18, 2013 summary: In the last six months, online K-Cup sales rebounded to prior numbers after Green Mountain realized the importance of partnerships and reinstated brands it had previously pulled. This dealer does not sell unauthorized K-Cups. His contract was up in September, but Green Mountain extended renewal notices until November, when it likely will announce its anticounterfeiting technology. Authorized and unauthorized K-Cups have created confusion for consumers and distributors alike, and Green Mountain will have to make the distinction quite clear prior to

Keurig Green Mountain

the 2014 barcode rollout. Green Mountain's new [Bolt](#) brewer, also due out in 2014, will be a game changer and will double his office sales in the first six to 12 months.

Current GMCR Sales

- "Green Mountain sales depend on which channel you are talking about. We are up 10% on local sales in the last six months to year. But this month's data show that our internet sales are down slightly."
- "In the next 12 months, our K-Cup sales will be flat."
- "We are probably experiencing more competition because K-Cups are now everywhere, and we have the type of consumer that will buy a product when they see it on sale, in a local store."
- "If they shop at Staples for their office, they may start buying K-Cups there. Costco also presents a challenge. There is also a natural phase in competition with grocery stores. It happened with bottled water. We had strong sales in bottled water until grocery stores started using bottled water to bring people in. We are also doing less K-Cup promotions."
- "Staples K-Cup prices are not great, but OK. Compared to us, their margin for service is a completely different animal, and this is an education process for our customers. We charge \$16.95 to \$19.95 per box of 24 K-Cups, but this includes service. If the customer wants the lowest cost of K-Cups, say \$13.95 to \$14.95 per box, we can't do that price with service."
- "Unlicensed manufacturers have different K-Cup prices. It is different at Costco; they are significantly less. Some of the others are 10% less, and it will get less expensive over time."
- "Our Green Mountain agreement allows us to sell [\[The Coffee Bean and Tea Leaf\]](#) brewer and pods, but that is the only other brand we sell. We just renewed our Green Mountain contract."
- "Sure we have had some problems with Green Mountain. We have to react and be aware of what is happening."

Competition from Unlicensed K-Cups

- "Overall, I'm not sure how private label K-Cups are doing. I hear they are doing great at Costco, in part because private label costs less than Green Mountain."
- "To compete with Green Mountain, unlicensed brands will need their own machines or they will need to join up with Green Mountain like Peet's did. These companies will need to figure out a marketing strategy. It is hard to sell directly to the consumer, and Green Mountain does this very well."
- "Forty percent of the consumers don't care what coffee they buy. They just buy the cheapest brand, although the quality of some renegades is not that great."
- "Our customers don't ask for private label brands. If they use another brand, I don't know where their loyalties lie."
- "Peet's was smart. They spent a lot of energy battling Keurig, but Keurig has a lot of engineering dollars behind their machine and marketing. The machine is in place, and now Green Mountain will do the marketing for them. Both companies will benefit. The brewing technology is not that tough, but the marketing is."

Keurig 2.0

- "Keurig 2.0 will absolutely help Green Mountain. The machine will experience robust sales; sales might increase by as much 25%. It will do well across the board and will put a stop to renegade coffee, but this may take a while. It takes time to run through all the private label products already on the market."
- "It is about time that Keurig came out with the new carafe system."
- "People will be divided on the brewing issue of Keurig 2.0."
- "Keurig will need to tell Bed, Bath, and Beyond and all the other folks what side of the fence they need to get on."
- "There will always be ways to get around a machine. People will always try to do this. People may even try to come up with their own bar code."

Green Mountain sales depend on which channel you are talking about. We are up 10% on local sales in the last six months to year. But this month's data show that our internet sales are down slightly. ... In the next 12 months, our K-Cup sales will be flat.

*CEO, Online Distributor
w/ Exclusive Green Mountain Contract*

Keurig 2.0 will absolutely help Green Mountain. The machine will experience robust sales; sales might increase by as much 25%. It will do well across the board and will put a stop to renegade coffee, but this may take a while. It takes time to run through all the private label products already on the market. ... Keurig will need to tell Bed, Bath, and Beyond and all the other folks what side of the fence they need to get on.

*CEO, Online Distributor
w/ Exclusive Green Mountain Contract*

Keurig Green Mountain

- “The new machines will not be a major problem for Keurig. The new brewers will be very average in engineering, at best. They won’t meet up to the Keurig. The [BUNN machine](#) brews all pods, and it has done well. I know of a \$400 to \$500 office machine that brews both licensed and unlicensed K-Cups, and it works well. The owners of these machines will not buy a new carafe machine.”
- “In China, dozens make CBTL machine knock-offs. But can they get robust distribution? That is always interesting.”

2. President of an online distributor; repeat source

The Keurig 2.0 is a beautiful machine with great technology, but it will be competing with several open platform brewers, including [TouchCoffee](#) and [Remington iCup](#), which will be introduced in summer 2014. The new brewers will allow consumers to brew both Green Mountain and unlicensed coffee. In the next 12 months, he expects moderate Green Mountain growth compared to faster private label growth as choice will have a big impact on Green Mountain. His business is promoting off-label products from companies that work well with vendors and customers, while Green Mountain products are no longer one of their top 10 brands.

Oct. 18, 2013 summary: Green Mountain K-Cup sales continue to decline as the more cost-effective private labels grows in sales, popularity and varieties. This source did not provide details, but his comments in June showed that private-label sales grew to comprise 30% of his business in just 18 months and had pushed Green Mountain’s portion of his business to 70%. He was not familiar with Green Mountain’s anticounterfeit technology or the new brewers.

Current GMCR Sales

- “[Compared to six months and a year ago, Green Mountain sales are] lower, as compatible products continue to make inroads. The trend has been Green Mountain losing market, particularly [here].”
- “[In the next 12 months], I expect moderate growth on Green Mountain , but faster growth on non-Green Mountain .”
- “We have no issues with Green Mountain inventory.”
- “We do not have a Green Mountain agreement. Their agreements mean nothing.”

Competition from Unlicensed K-Cups

- “[Private label K-Cups offer] innovation, lower prices, marketing support, and the desire to work with the customer instead of always finding ways to make it difficult.”
- “Customers are asking for private label and repeating the purchases. In fact, Green Mountain no longer holds a spot in our top ten.”
- “Private label prices can be the same or lower than Green Mountain . It is not about price. It is about choice. It is having a huge impact on Green Mountain .”
- “I’m sure [Peet’s partnering] came with a big check. Green Mountain had some clout, as they already have Caribou in the system, and it does well.”

Keurig 2.0

- “The Keurig 2.0 is a beautiful machine with some great technology behind it.”
- “[We are] separating Green Mountain products into their own small section and promoting the other brands that actually want to work with vendors.”
- “Sometime this summer, you will see what is known as open platform brewers enter the market [such as] Touch Beverages and the Remington iCup. They will have the ability to brew Keurig licensed K-Cups [and] also all other unlicensed Keurig-compatible capsules.”
- “What happens in the next 18 months is sure to be interesting, as this battles out in the courts, on the store shelves, and on the kitchen counter.”
- “[Keurig has] built a great business with fantastic products. ... They continue to surprise us with more forward thinking innovation.”

[Private label K-Cups offer] innovation, lower prices, marketing support, and the desire to work with the customer instead of always finding ways to make it difficult. ... Customers are asking for private label and repeating the purchases. In fact, Green Mountain no longer holds a spot in our top ten.

President, Online Distributor

3. President of online distributor with exclusive Green Mountain contract; repeat source

The Keurig 2.0 will give Green Mountain a captive audience and slowly change the brewer base as unlicensed brands eventually realize they can make more money with a Green Mountain partnership due to the brand recognition. His company's sales will remain flat in 2014, however, because customers can now buy K-Cups at many other venues including grocery stores. The price difference between licensed and unlicensed K-Cups is often less than 10% when marketing allowances for large orders are factored into the price. He has had a rocky partnership with the Green Mountain, although recently Green Mountain is making efforts to restore their relationship.

July 3, 2013 summary: This source reported a slight sales dip for branded K-Cups and suspects his customers are buying private-label coffee from other sources. He does not sell private labels because of agreements with Green Mountain, but expects the increased availability of private-label K-Cups to take more of Green Mountain's sales. To get around his contract with Green Mountain, he is on the lookout for brewers that accept K-Cups and would then sell their private label.

Current GMCR Sales

- "In the last six months to a year, our Green Mountain sales have remained steady; they are neither shrinking nor growing."
- "I wouldn't be surprised to see that sales remain flat in the next 12 months. In fact, we expect our sales to be flat or to have just slow growth. Our customers can go to a lot of channels now, such as household or grocery stores and other alternative sources, to buy the products they like. The products are now sold in many places, unlike in the past."
- "No problems with Green Mountain inventory."
- "We've been working with Green Mountain for 10 years now, and yes, we will renew our contract when it comes up. We are a full distributor of Green Mountain. Our relationship started out terrific, but once Green Mountain began to lose focus on supporting office coffee, the relationship went bad. We do business with Green Mountain because we have to, not because we want to."
- "In the last year, Green Mountain has made significant efforts to put our relationship back on track. They are trying to bring more value to our relationship by increasing product availability and providing support."

Competition from Unlicensed K-Cups

- "We do not carry private label because we have an exclusive contract with Green Mountain."
- "None of our customers ask for private label. I think that switch occurs more in the retail sector and grocery stores. Offices are loyal to a certain brand, something they are comfortable with, no matter what it is. They are less likely to switch to a private label."
- "There is a price difference between the Keurig and non-Keurig K-Cups, but a 20% difference would be a stretch. Private label K-Cups are probably 10% to 15% lower in cost, but not for everyone. At the end of the day, once you factor in back rebate money, the difference may be 10% or less. Marketing offers allowances with large purchases, and you can't discount that in the price factor."
- "Private label has cut into the Keurig market some, but Green Mountain still has name recognition."
- "Peet's Coffee was a great move for both Peet's and Green Mountain. I had an intuition this was coming. Folks are realizing they can make more money together than separately. Peet's is powerful in the Western region, and they have some presence in the East, while Green Mountain is well known in the East. This partnership brings value to both companies." [Note: This source was not available for an interview in our Oct., 2013 report]

Keurig 2.0

- "We'll sell the Keurig 2.0, but I don't think it will really increase sales. It may alleviate customers trying to buy private label K-Cups, however."
- "I think there is a diminishing return for private label K-Cups. Green Mountain will have a captive audience. It will not happen overnight, but the brewer base will shift."

We've been working with Green Mountain for 10 years now, and yes, we will renew our contract when it comes up. We are a full distributor of Green Mountain. Our relationship started out terrific, but once Green Mountain began to lose focus on supporting office coffee, the relationship went bad. We do business with Green Mountain because we have to, not because we want to.

*President, Online Distributor w/
Exclusive Green Mountain Contract*

Keurig Green Mountain

- “I wonder if more private label brands will see the light and realize they’ll make more money with Green Mountain.”
- “The carafe is nice to have and to talk about when in a sales meeting. But from a functional standpoint, I don’t think it will be used often. It is more of a sales pitch.”
- “Any impact from competing brewers will be minor. Keurig/Green Mountain has had a significant amount of time to build market share, brand equity, and economies of scale. There will not be enough of a price difference to entice consumers to the “unproven” unlicensed K-Cups [and brewers] to an extent that it will be significantly impactful.”
- “The Vue was probably a mistake, to offer two different platforms.”

I think there is a diminishing return for private label K-Cups. ... I wonder if more private label brands will see the light and realize they’ll make more money with Green Mountain.

*President, Online Distributor w/
Exclusive Green Mountain Contract*

4. President of an online distributor

The Keurig 2.0 is a big mistake. Consumers will be unhappy to learn they can no longer drink their favorite coffee, and retailers are already worried about dealing with many brewer returns. New brewers, including the TouchCoffee and iCup, will enable consumers to drink both Green Mountain and off-label coffees. Because Green Mountain bullies vendors, this source is gradually moving away from selling Green Mountain products. Green Mountain comprises 50% of his business now, but he hopes to reduce that percentage to less than 20% in the next year. His private label sales are strong, and once customers try a recommended brand, very few go back to Green Mountain.

Current GMCR Sales

- “I’m trying to convert 50% of my business away from Green Mountain and all their brands. My goal is to make them a minority part of this business. In a year, Green Mountain may be down to 20% of my business, although I’d like to have it down to 0%.”
- “I don’t like the way Green Mountain bullies the vendors. They are not willing to work with us because we carry competing products. If we carry competitor products, Green Mountain would rather we not sell their products at all. Green Mountain thinks we will flounder without them, but our overall sales have increased in the past year.”
- “We haven’t had any problems with inventory.”
- “We do not have a contract with Green Mountain. This is working out, and we don’t want to convert now.”

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President, Online Distributor

Competition from Unlicensed K-Cups

- “Private labels are doing great. They will continue eating into Green Mountain’s share. They are 10% to 20% less expensive.”
- “We don’t have our own private label, but we sell Marley Coffee, [Martinson](#) [Mother Parkers Tea & Coffee Inc.], and [Brown Gold](#). New ones coming up will be really big: [Cake Boss](#); [Guy Fieri](#), coming this week; and [Brooklyn Bean Roastery](#).”
- “Very few of our customers go back to Green Mountain once they try something else that we recommend. People are looking for flavor and taste. They don’t really know the different brands.”
- “Green Mountain was not a known brand when it started up. No one knew who they were, but they built up the business and recognition. Others can do the same.”
- “I was really surprised at Peet’s. The 2.0 scared Peet’s, but they are the only one. That is the worst decision. The decision must be based on pure money. Now Peet’s will be controlled by Green Mountain—and now we need to stop carrying Peet’s.”

Keurig 2.0

- “Keurig made their biggest mistake in history with the 2.0. This will blow up in Keurig’s face.”
- “The 2.0 will affect everyone. We are educating customers about the Keurig 2.0.”

Keurig Green Mountain

- “The retailers are very upset. Bed, Bath, and Beyond, one of Green Mountain’s biggest customers, is worried about how they will control everyone and all the returns. What would you rather return, a coffee you’ve come to love or a brewer that won’t let you drink that coffee? My guess is the machine. The retailers will have to take the machines back, and what will those conditions be? This will be a problem for everyone.”
- “Most customers won’t know about the change in the new Keurig brewer. They’ll buy a 2.0, take it home, and find that their favorite coffee doesn’t work. They’ll call the 800 number that comes up on the brewer, and all they’ll hear is to buy a branded product. No one will be happy.”
- “Competition is coming for the Keurig 2.0. The Remington iCup is beautiful, and the Touch Beverage is very good. The Touch is almost to market, and it can brew a 30-ounce carafe.”
- “I don’t agree that customers want a brewer that can make a carafe. I think Keurig is asking for this.”
- “I still deal with folks that bought the Keurig Vue. They are starting to call and ask for their money back or a store credit.”

The retailers are very upset. Bed, Bath, and Beyond, one of Green Mountain’s biggest customers, is worried about how they will control everyone and all the returns. What would you rather return, a coffee you’ve come to love or a brewer that won’t let you drink that coffee?

President, Online Distributor

5. Director of sales for an online distributor of specialty coffee

Green Mountain is trying to control the market once again with the Keurig 2.0, but given the number of original Keurig brewers still in use, the plan may not be effective. Customers seeking Keurig convenience have asked for a specialty roasted K-Cup, and his company now sells two specialty brands. These customers will appreciate roasted quality and most likely will not return to the Green Mountain brands. As a result, although Green Mountain will continue to dominate market share, they would no longer be able to control the direction of the K-Cup. The Green Mountain–Peet’s partnership was a good move for both companies, but Peet’s is still considered corporate coffee. Green Mountain needs to partner with specialty roasters or miss out on the future direction of high-end coffee.

Current GMCR Sales

- “I’m not familiar with Green Mountain sales. I know people pay for their convenience.”

Competition from Unlicensed K-Cups

- “There is a new environment for higher-end K-Cup options, complete with more efficient cups with less waste. Where K-Cups used to represent mediocre specialty coffee companies, now they are open to some of the higher-end boutique roasters as an effective way to control quality single cup doses to the public.”
- “The future industry focus on higher-end coffee options to the consumer will segment Green Mountain in a Starbucks category, while the independent roasters will appeal to the wave of high-quality coffee seekers. No longer will Green Mountain control the direction of the K-Cup, although they’ll definitely retain control of the market share.”
- “Several of our accounts are asking for an [unlicensed K-Cup] option as their customers are increasing their specialty consumption by using more convenient methods such as the Keurig.”
- “We just started [selling our own unlicensed brands] and will continue to build on this single-serve option for our top coffees, as our customers continue to request this method. We have two offerings so far and will explore offering it to other brands that we manage and support.”
- “It remains to be seen [if customers who try unlicensed brands go back to Green Mountain]. But I believe our product, as an example, is far superior in taste to the options Green Mountain currently creates. The level of quality available to the K-Cups is much better when crafted by a boutique roaster.”
- “Private label is about the same [in price] so far as the Green Mountain options, but there will be more of a shift in price once the demand picks up and consumers realize they can get a better coffee for their Keurig machines. I would expect the private label options to be much more expensive when sold at the café’s and top tier grocers and markets across the country.”
- “Peet’s has arguably the best retail strategists on the Green Mountain team. They’re able to create a market for high priced coffee on the grocery shelf and are usually positioned as the brand to beat. It’s a smart move for both of them as Green Mountain branches out towards better quality coffees. However, Peet’s is still recognized as corporate coffee, rather than independent or boutique quality coffee. Unless Green Mountain partners with a [Stumptown](#)

Keurig Green Mountain

[Coffee Roasters] or another Roaster of the Year winner, they are likely to miss out on the future direction of the high-end category.”

Keurig 2.0

- “I haven’t tried [the Keurig 2.0] yet, but the concept sounds interesting. Trying to find a new way to control the market again is a smart idea, but I don’t know that it will have its desired effect, with all the original machines still in use.”
- “I don’t believe it will change our strategy as a roaster. Original K-Cup owners still have the option to taste better quality coffee options outside the Green Mountain realm. Once customers become accustomed to these coffees and higher quality offerings, they will not want to purchase a machine that only allows them to drink the lower-quality options.”
- “Of course, we’re only talking about the minority of coffee drinkers right now. But as trends continue to focus on more expensive, higher quality coffees, customers will want to support the micro-roasters who are sourcing the best from around the world in a sustainable and transparent fashion.”

7) Industry Specialists

Sources were split on the effect the new brewer may have on unlicensed K-Cups. Two said it would not lock out the off-label competitors, as many original Keurig brewers continue to work well and customers will not feel compelled to upgrade to the new brewer. Only one source said the new brewer will help Green Mountain in its quest to maintain growth in K-Cup sales and keep unlicensed competitors at bay. Two sources were uncertain as to how the new brewer would affect the market. K-Cup sales are growing according to one source, while they are on par with the previous year, according to two others. Two sources said the Keurig 2.0 carafe option is a niche feature and not likely to stimulate sales of the new brewer.

KEY SILO FINDINGS

Current GMCR Sales

- 1 of 4 said K-Cup sales are growing significantly.
- 2 said sales are steady.

Competition from Unlicensed K-Cups

- 2 said unlicensed sales are growing and providing a challenge to Green Mountain.
- 1 said unlicensed brands will not pose a significant threat to Green Mountain.

Keurig 2.0

- 2 said 2.0 will not lock unlicensed brands out because of the high number of Keurigs already in existence that will sustain the unlicensed model.
- 1 expect the new brewer to be a significant help to Green Mountain in fending off unlicensed brands.
- 2 said the carafe option is not a game changer and will not be overly popular.

1. Quality taster and lab operations manager; repeat source

Consumers will find a way around the Keurig 2.0 system, using other brewers, or continuing use of their original Keurig machines, which will allow them to keep brewing unlicensed K-Cups. The company should consider brewer trade-ins to maintain control of the K-Cup market. The K-Cup brewing technology is difficult to develop, so private label companies, such as Peet’s and Dunkin’ Donuts, benefit from a Green Mountain partnership. He expects Green Mountain to reduce its K-Cup prices to stay competitive. The Keurig Green Mountain name change was a smart move; it will give Green Mountain more national recognition.

Sept. 21, 2012 summary: Green Mountain will lower K-Cup prices, and sales will be steady for about six months. After that time, market share will start to drop off, although the source could not yet quantify the decline. Consumers will be attracted to less expensive K-Cups, but only if the quality is up to that of Green Mountain. In addition, the Keurig machines break down, which may encourage consumers to look at other brands. The Vue is Green Mountain’s environmental answer to K-Cup, but the Vue is too expensive to have a lot of sales.

Current GMCR Sales

Keurig Green Mountain

- “I know Green Mountain is getting competition from the K-Cup knock-offs. I’m starting to see non-Keurig single-serves on the store shelves more often. Competition is ramping up.”
- “It has been interesting to watch the patent expiration and how Green Mountain still maintains 80% of the single cup market share. It really amazes me.”
- “I’m not sure about the cost per cup. The price of coffee varies, but if you look at the price of \$25 to \$35 per pound, the cost of a single K-Cup is insane. But Americans pay for convenience, and everyone wants a piece of this action. However, Green Mountain will reduce their prices a bit to be competitive.”
- “The Keurig name change was a smart move. Green Mountain has a name in New England, but not nationally, while Keurig is known nationally because of the K-Cup. There is brand loyalty in this business, and you need to have a big well-known name. Green Mountain needs to have Starbucks and [Folgers](#) [The JM Smucker Co./SJM], two big names in coffee. Their [relationship with Starbucks](#) is changing, and their agreement with Dunkin’ Donuts is just for three years.”

Competition from Unlicensed K-Cups

- “Private label has definitely cut into sales of Green Mountain. But Green Mountain is still in a position where they have powerful control. They can maintain this position with a high margin. A lot of this is due to high volume, high output.”
- “There is never a sudden shift in this market; it is a slow process, as people realize other cheaper products. Green Mountain is expensive coffee, but people are willing to pay for convenience. Less expensive private labels now offer them that convenience. People now have an alternative. I expect private labels will be here to stay, despite the Keurig 2.0. People will always use other brewers.”
- “Coffee drinkers tend to be brand loyal, unless they are introduced to another coffee, by a friend or colleague. But there is always room for new brands, new private labels.”
- “There is a lot of private label competition, and other producers have been very creative. But the challenge is the shelf space in the supermarkets.”
- “Peet’s was a logical choice for a partnership. Peet’s is the preferred best cup of dark roast, the most dynamic. And Peet’s has big name recognition, like Starbucks and Dunkin’ Donuts. Keurig has built up market share, and there is a natural gravitation toward this. Dunkin’ Donuts tried a pod brewer on their own, but it was not successful because the technology is difficult. They needed to hook up with proven technology.”
- “The deal should work for both companies.”

Keurig 2.0

- “It is not about the carafe. No one will drink that coffee once it has been sitting around and is cool and stale. I question if Keurig did market research on this. I doubt if many people asked for this feature.”
- “Green Mountain will have a chip or code on the 2.0. But people will find a way around it, and soon we will read instructions on the internet about how to deactivate the Keurig 2.0 or how to make a generic cover for a K-Cup. It will be a challenge, and people will be innovative.”
- “I think only a small number of people will return their machines.”
- “Green Mountain is stuck in an in-between mode. They have millions of 1.0 machines still out there that will be brewing off-label. Until enough of these machines die off, Keurig won’t lock private label out.”
- “The Keurig 2.0 is an entirely new route for them. They are being challenged, and they are coming up with creative ideas. It is simultaneously an innovative and a defensive process. They are trying to lock people out again, and it is possible some private labels will have to play catch-up.”
- “The company invested millions in the Vue, which fell flat on its face. They should have offered a trade-in program with the Vue, and they should do the same with the 1.0, so people get locked into their new machines. Without a trade, why would people buy a new machine?”

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*Quality Taster &
Lab Operations Manager*

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*Quality Taster &
Lab Operations Manager*

2. Founder of an online coffee review guide; repeat source

The Keurig 2.0 will increase Green Mountain sales, although the number of units sold will never reach that of the 1.0 brewer. Being limited in what they can drink may trigger consumer backlash as people are more informed now and their choices are greater. Additionally, the 1.0 brewers are still functioning and will continue to be popular in the unlicensed K-Cup market. Keurig still refuses to address the environmental issue of disposable plastic cups. This problem, which is not going away, is now being addressed by competing brewers. Although Keurig is beneficial for Peet's and the other unlicensed brands Green Mountain has partnered with, Keurig has gotten too big for its own good.

Sept. 21, 2012 summary: Green Mountain has a good future, even though it faces strong competition. The company has many loyal customers, and they offer great benefits like a coffee club that gives members a 15% discount on K-Cups. At first, people will buy the new discounted cups just to try them out, but eventually loyal consumers will return to K-Cups. Green Mountain has good quality control. Keurig currently has 75% to 80% of the market, although it faces tough competition, especially from Tassimo, which ranks second in the market, and Nespresso. The Vue is a good environmental move for Green Mountain, but it is expensive. The patent expiration will be a bigger game changer for online retailers because more and more people are buying online

Current GMCR Sales

- "Green Mountain sales have been stable for the past year."
- "The 2.0 will be successful next year, but not as successful as the 1.0."
- "We no longer work with Green Mountain. They cancelled our program after seven years because we were doing marketing for a competitor. So we no longer promote K-Cups. I think this was a bad decision on Green Mountain's part because they have lost our public relations and constant Green Mountain reminder on the internet."
- "At first we had a good relationship with Green Mountain, and we were allowed to talk with them. Now they are so big, they have layers of bureaucracy. It is hard to talk to them. They are so big, they don't listen to people's feedback or ideas. They can't make something better if they don't see the problems."

Competition from Unlicensed K-Cups

- "There are many good private label cups, and people are interested in them."
- "Private label has made a dent in Keurig sales. They are fighting back with the 2.0."
- "Private label K-Cups are cheaper, but it depends on the channel, where they buy the cups, how many they buy."
- "Peet's was a great move. I didn't understand why they came out with their own private option a few years ago. Peet's offers the consumer another choice. They are a well-recognized name."
- "I think the new 2.0 stimulated the Peet's move. I'm not sure of the agreement they had, but Green Mountain continues to provide packaging and marketing. Starbucks has been a huge success; it is a win-win for both companies."

Keurig 2.0

- "The 2.0 will be successful because Keurig makes great products, but they can't repeat the same success as with the original brewer. They won't sell as many as their first brewer. People are now well-educated. They know they have a choice. They also become attracted to a particular flavor. But I can't say how good the Keurig 2.0 is, nor how it will work."
- "The 2.0 will not hurt private label that much. A lot of people do not agree with proprietary K-Cups. Consumers may not know about the new technology, and they may be angry."
- "Bed, Bath, and Beyond questions customers about the machines they are buying and the coffee they drink. The store does not want a lot of returns, so they try to take care of the issues before the customer buys a machine. I am not sure how they will handle returns."
- "The 1.0's will last for a while longer, and people can continue to buy private label K-Cups for them. Will they trade up and buy the new machine? Not this year. Not until their old machines die. New consumers will like the 2.0, however."

The 1.0's will last for a while longer, and people can continue to buy private label K-Cups for them. Will they trade up and buy the new machine? Not this year. Not until their old machines die. New consumers will like the 2.0, however.

Founder, Online Coffee Review Guide

Keurig Green Mountain

- “The great part about the first system is that people have a choice. When the majority of people are happy, you have a better product. When there is bad feedback, this creates bad public relations for the company.”
- “Keurig has forced other coffee makers to make their own brewers. I’m not sure if all of them will have good technology, but there are several out now—BUNN, Hamilton Beach, and Mr. Coffee—and others will be coming.”
- “Nespresso tried to compete with Keurig, and they came out with a machine that brewed both coffee and espresso. But they had one critical problem. The temperature was not high enough; it didn’t go over 100 degrees. That machine did not sell well.”
- “Consumers’ biggest issue is green options, and Keurig will not address the biodegradable issue, not even on the 2.0. If you want zero waste technology, you can’t use any Keurig-approved products. They must address this environmental issue. The Keurig 2.0 will be great to help secure market share, but not all consumers will agree with their environmental policies. Other companies are working on biodegradable products, which will cut into Keurig sales.”

3. Sales manager for a national coffee distribution service

Green Mountain sales will increase following the Keurig 2.0 introduction. There is no reason the 2.0 should not work, given that Green Mountain was smart to penetrate both home and commercial channels early on. Home K-Cup sales are experiencing strong growth, and the 2.0 carafe will make it easier for the commercial channel to cut down on employees taking K-Cups home. Unlicensed K-Cups cost 30% to 40% less than Green Mountain K-Cups, but the coffee is not as good, and there is less of it in each K-Cup. Unlicensed manufacturers also have been slow to offer alternative brewers, giving the 2.0 another advantage.

Current GMCR Sales

- “I hear that at-home sales are growing tremendously.”
- “I have meetings with the Green Mountain people on the commercial end, and I hear that sales are up in certain territories since last year. The market on the East Coast is up 28%, Midwest 8% to 12%, and West Coast 15% to 20%. This is public knowledge.”
- “Green Mountain was smart to get into different channels, different playing fields. It took Keurig 15 years to penetrate the home market. Now they have a strong market, although they are losing traction on the commercial side. Employees are taking K-Cups home, and as a result, businesses are [not happy that they are] spending more on coffee.”
- “The cost per cup is a tough one to call. There are different channels for customers, office supply, online, [[The Wal-Mart Stores Inc./WMT](#)]. It all depends on the packaging, which ranges from \$10 for 24 K-cups up to \$18 for 24 K-Cups. Vendors get upset when prices are all over the place.”
- “Coffee prices affect everyone, and the prices always vary. But Green Mountain’s costs have been stable for the past four years, even though the price of coffee went up and down.”
- “Green Mountain’s margins all depend on who you talk to. You get different numbers, ranging from 20% to 50%. But the margins are really irrelevant because some businesses get free coffee. It all depends on the deals they have made.”

The 2.0 is a dream come true for our industry. It will help Green Mountain sales. There is no reason why this shouldn’t work.

*Sales Manager
National Coffee Distribution Service*

Competition from Unlicensed K-Cups

- “At-home usage of private label is increasing in popularity. I’m not sure about the business channel because we are not allowed to sell rogue cups.”
- “Private label has affected Green Mountain business, but not significantly. In 2005, Green Mountain bought out a lot of the private roasting companies. Green Mountain tried to be monopolistic, and it worked for three to four years.”
- “Peet’s is a great brand, and the move should help Peet’s for sure. I’m not sure about the terms of their Green Mountain agreement, but Green Mountain probably buys the ability to manufacture, package, stock, and send out their authorized K-Cups.”
- “Green Mountain sets all the K-Cup prices. Green Mountain and Peet’s usually follow each other on prices, which are on the high end.”

Keurig Green Mountain

- “Some say private labels are one-half the price, but probably they are more like 30% to 40% less. The problem is quality. Green Mountain knows they have good quality and offers 3.94 grams of coffee per K-Cup. With private label K-Cups, you can hear the coffee moving around in the cup. The cup is not as full as the others. It may even be an instant coffee.”

Keurig 2.0

- “The 2.0 is a dream come true for our industry. It will help Green Mountain sales. There is no reason why this shouldn’t work.”
- “Sure, some people are always unhappy, and some people will try to work a system. But this won’t affect 2.0 sales.”
- “This brewer may stabilize the commercial channel. Commercials have been looking for alternatives. There is a problem with people in offices stealing K-Cups, and the businesses wonder why they are spending so much on coffee service. This may change with a carafe of good coffee.”
- “Private label manufacturers have been slow to present alternative brewers. I have seen the new machines coming out, but I’m not sure how they will do.”

4. Consultant to coffee producers and buyers

It is hard to predict how the Keurig 2.0 will sell. Green Mountain is transparent about its intentions, but many consumers may still be unaware of the change, and some of them will be angry. He doubts whether consumers asked for the carafe feature. Unlicensed K-Cup companies are fighting for store shelf space, and many of the visible brands are licensed. Keurig could face competition when a new wave of high-end unlicensed K-Cups enter the market soon; this will depend on how well these products fare in K-Cup format. Green Mountain offers some top quality coffees, but the public has a misconception that Starbucks has raised Green Mountain’s bar. Since Peet’s partnered with Green Mountain, its mystique of roasting a dark blend coffee will begin to fade, but he doubts whether the customers care.

Current GMCR Sales

- “Most of the K-Cups on our grocery shelves are Green Mountain. Most are licensed now. They seem to have bought out most of the private label competition.”
- “Green Mountain is underestimated in terms of quality. They targeted home coffee buyers, and that was a move up for the consumers. The office market is different; convenience works better there, where people have all kinds of different tastes.”
- “Green Mountain is really the defined space between commodity and high-end coffee. They can’t put out a better quality coffee than they do already because they are limited by K-Cup technology. Green Mountain wants to do better coffee.”

Competition from Unlicensed K-Cups

- “There are a fairly substantial number of companies trying to make sure their private labels stay on the shelves as the stores migrate from canned coffee.”
- “This is a big perception game, and it is all that counts in business.”
- “There is a huge wave of new high-end products getting ready to hit the market in a K-Cup format. I cannot tell you their names, and I’m not sure how good they will be. But their goal is to raise the bar for K-Cups. This will be a different world of coffee. Most people who are playing in this smaller more knowledgeable segment are not people who would buy K-Cups.”
- “However, if these high-end producers of elite coffees end up producing a K-Cup that is almost as good as whole bean grinder coffee, this would hurt Green Mountain.”
- “It is still not apparent to me if the new specialty lines of coffee will do better than Green Mountain. Green Mountain is still producing a very good specialty coffee. Green Mountain has fostered the misunderstanding that the partnership with Starbucks has given Keurig a premium line of coffee, but this is simply not true. The Green Mountain line of high-end coffee is far superior. In fact, Starbucks has reduced the quality of K-Cups.”

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Coffee Producers & Buyers Consultant

Keurig Green Mountain

- “The upcoming specialty line would make an impact in the K-Cup market if they were attempting to compete against Folgers or some other lousy coffee. It would be much more momentous if they took this space. But they are competing with Green Mountain, which is outstanding coffee.”
- “Then you have the whole bean coffee drinkers, but I don’t see fresh ground coffee getting into the K-Cup market.”
- “It is very interesting that Peet’s has partnered with Green Mountain. They are a complex company and a complex story. I’m not sure to what degree defines their partnership.”
- “Peet’s once had a culture and mystique about their dark roast style. But with Green Mountain now producing Peet’s Coffee on their roasting equipment and controlling it, any mystery would be completely gone. It will not be possible for Green Mountain to brew a classic West Coast Peet’s cup of coffee; they could not make it strong enough. Of course, I’m not sure if the customers care.”
- “I wonder if the old Peet’s company would have partnered with Green Mountain. I think they would have been arrogant and tried to figure out how to get Peet’s company into their own K-Cups. Possibly the acquisition by the German company [Joh. A. Benckiser] changed that thinking.”

Keurig 2.0

- “I don’t see any way of predicting how the Keurig 2.0 will do.”
- “People who are used to unauthorized K-Cups might be frustrated by the new brewer.”
- “Consumers are vague until they have to buy a product. Most consumers are probably not aware of any proprietary changes to the Keurig 2.0. However, there are a lot of K-Cup fanatics online. These people may be aware of the changes.”
- “It sounds like Keurig is transparent about its proprietary technology.”
- “Having a carafe is just a Keurig idea.”

8) Online Consumer Survey

A survey of 316 coffee drinkers in the U.S. found Green Mountain’s Keurig 2.0 to have limited appeal based on lack of desire for a new machine, high satisfaction with their current brewer, and some backlash at the exclusion of unlicensed brands with the new release. Licensed K-Cups continue to dominate the landscape, though 39% of respondents are increasing their unlicensed brand purchases from three months ago.

Green Mountain’s Keurig is the decisive leader among single-serve coffee machines, though only a quarter of respondents expect to buy a new Keurig in the next 12 months.

- 68.3% of single-serve coffee consumers own a Keurig. (Q2)
 - Mr. Coffee (14.4%) and Hamilton Beach (10.8%) were a distant second and third.
- 51.2% of respondents are not looking to buy a single-serve coffee machine in the next 12 months. (Q15)
 - 25.2% would purchase a Keurig, while 10.6% will buy a Mr. Coffee.

Coffee drinkers will not adopt the Keurig 2.0, and its inability to use unlicensed K-Cups decreases the likelihood of consumers purchasing the new brewer.

- Knowledge of the Keurig 2.0 brewer is moderate and interest in it is quite limited. (Q16)
 - 37.9% of coffee drinkers had not heard about the Keurig 2.0 until this survey.
 - Of those coffee drinkers that knew about the Keurig 2.0, 26.9% are not at all likely to buy it when it becomes available in the fall of 2014, and 11.6% are only somewhat likely.
- The exclusion of unlicensed brands hurts Keurig 2.0 more than anything, though more than a quarter of consumers are not affected either way by this development. (Q17)
 - 38% said the lack of acceptance of unlicensed K-Cups significantly decreases their likelihood of buying the Keurig 2.0.
 - 27.3% said it will not influence their decision at all.
 - 4.7% said it will significantly increase their decision to buy the Keurig 2.0.

Single-serve coffee machine owners are quite satisfied with their current machines and not likely to buy a different brewer in the next 12 months. Price and quality are the two most important factors in purchasing decisions.

Keurig Green Mountain

- Single-serve coffee machine owners are satisfied with their current machines. (Q3)
 - 41% are very satisfied and 36.7% are extremely satisfied with their current single-serve brewer.
- Few are likely to purchase a different single-serve coffee machine in the next 12 months. (Q4)
 - 44.6% are not at all likely to buy and 25.9% are moderately likely to buy.
- Price and quality are the top two factors in the decision to buy a single-serve coffee machine. (Q13, Q14)
 - The top factors when deciding what single-serve coffee machine to buy are price (71.5%), quality (54%), ability to control cup size (32.8%), and size of machine (27.2%).
 - The two most important factors when deciding which single-serve coffee machine to buy are price (45.4%) and quality (22.2%).

Green Mountain and licensed K-Cups are the most popular brands among single-serve coffee drinkers, though adoption of unlicensed K-Cups is on the rise compared to 3 months ago.

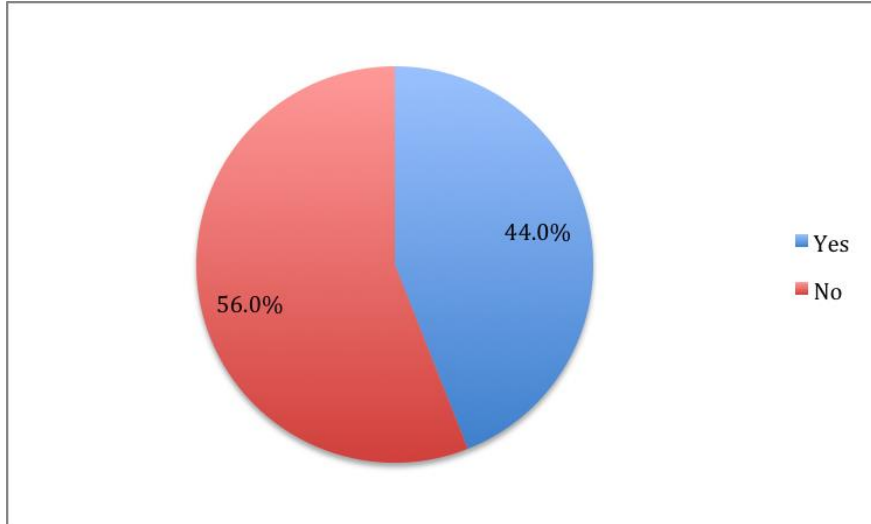
- Green Mountain K-Cups (50.4%) are the most popular brand for single-serve coffee machines. (Q5)
 - Green Mountain licensed brands Starbucks (40.9%), Dunkin' Donuts (35.8%), and Folgers (30.7%) were next.
 - Single-serve coffee drinkers buy an average of 4.5 different brands of coffee pods. (Q5 analyzed)
- Green Mountain K-Cups are bought the most by 20.6% of single-serve coffee owners. (Q6)
 - Starbucks (13.2%), and Folgers (11%) were next.
- 39% of single-serve coffee drinkers are increasing their purchases of unlicensed K-Cups compared to 3 months ago. (Q12)

Single-serve coffee pods are purchased most frequently at local grocery stores and big box stores. Customers buy them monthly, choosing based on taste, price, and compatibility with a specific machine.

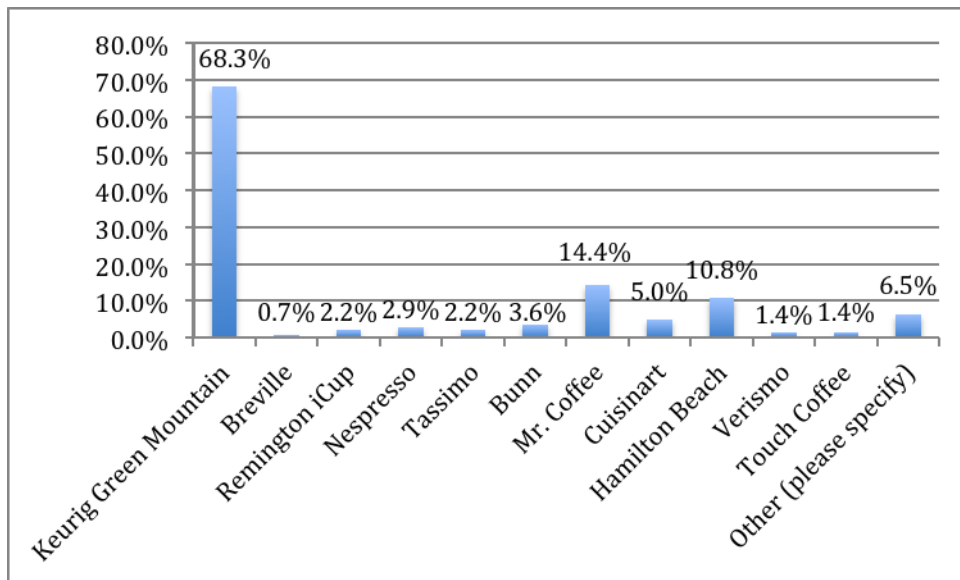
- Coffee pods are purchased at brick-and-mortar locations much more than online distributors. (Q9, Q10)
 - The most popular places to purchase coffee pods are at a local grocery store (49.3%), Walmart (46.3%), Amazon (30.9%), and Target (23.5%).
 - Single-serve coffee drinkers buy their coffee pods at an average of 2.4 locations. (Q9 analyzed)
 - Coffee pods are purchased the most at local grocery stores (24.3%), followed by Walmart (22.8%) and Amazon (10.3%).
- Coffee pods are purchased on a monthly basis. (Q11)
 - 33.1% buy coffee pods monthly, followed by every couple of months (28.7%) and a few times a month (25.7%).
- Taste, price, compatibility with a specific machine, and quantity are leading reasons driving coffee pod purchases. (Q7, Q8)
 - 80.1% buy based on taste, 77.2% value price, 45.6% choose because of quantity per box, and 41.9% said compatibility with their current machine was important.
 - The most important factor when purchasing coffee pods is taste (52.9%), price (28.7%) and compatibility with their machine (13.2%).

Keurig Green Mountain

1. Do you use a single-serve coffee machine at home?

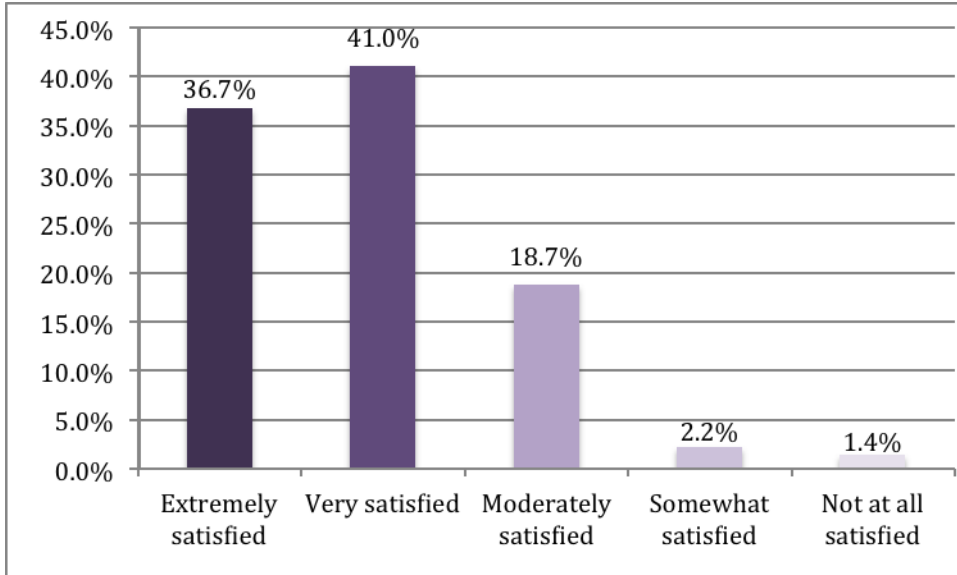


2. Which single-serve coffee machine(s) do you own? (select all that apply)

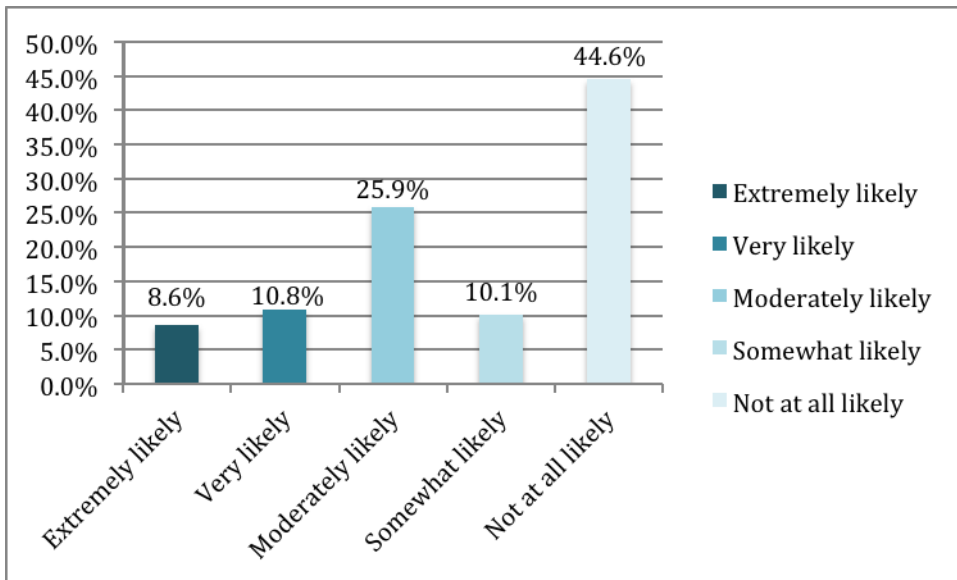


Keurig Green Mountain

3. How satisfied are you with your current single-serve machine

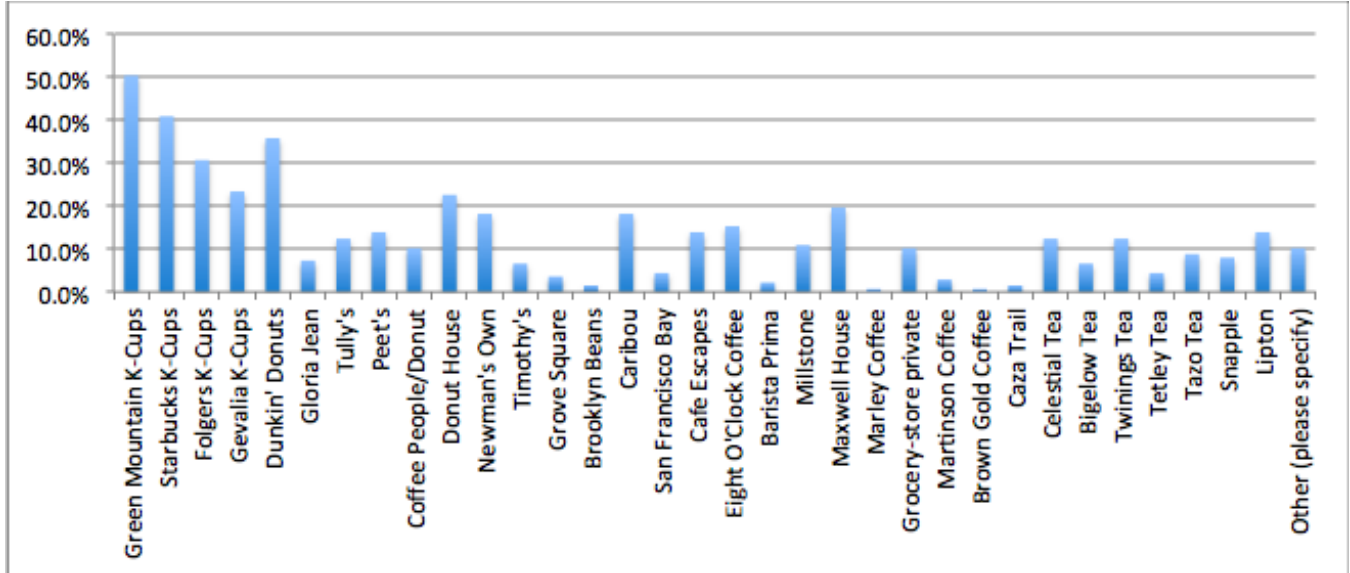


4. How likely are you to buy a different single-serve coffee maker in the next 12 months?

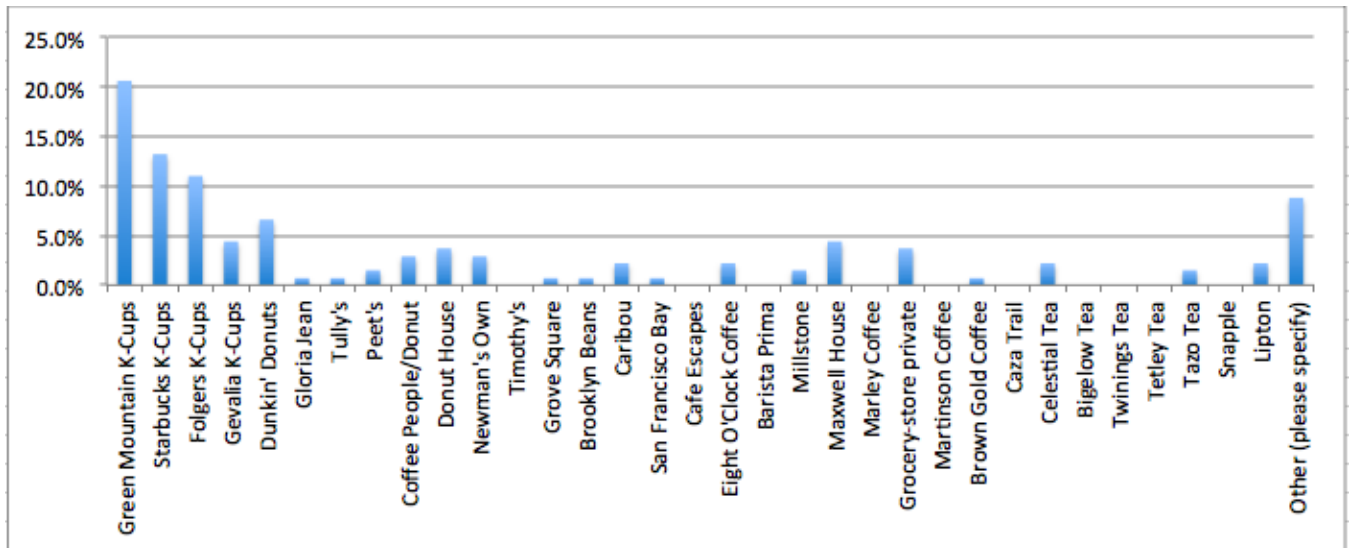


Keurig Green Mountain

5. Which coffee pods do you buy for your single-serve machine? (select all that apply)

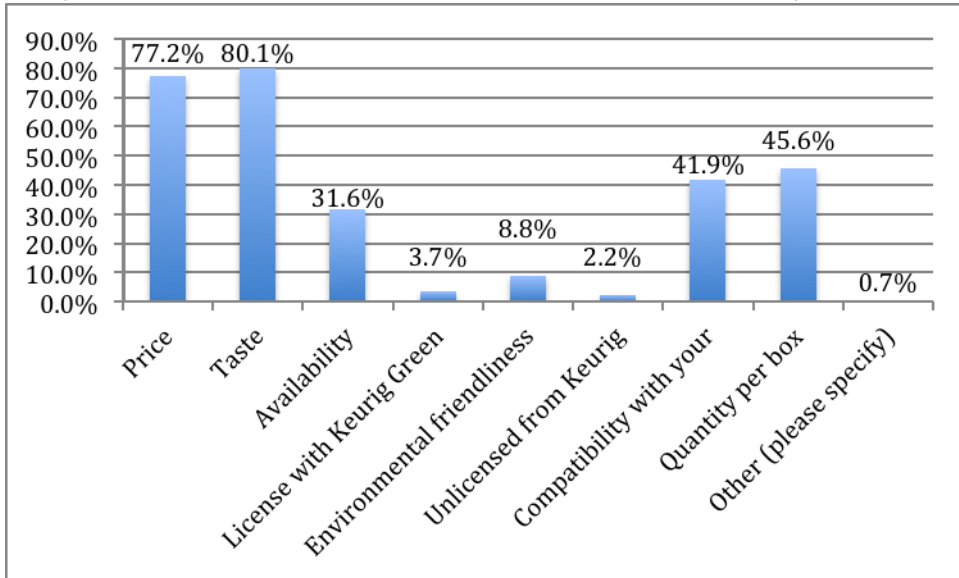


6. Which single-serve coffee pod do you buy the most?

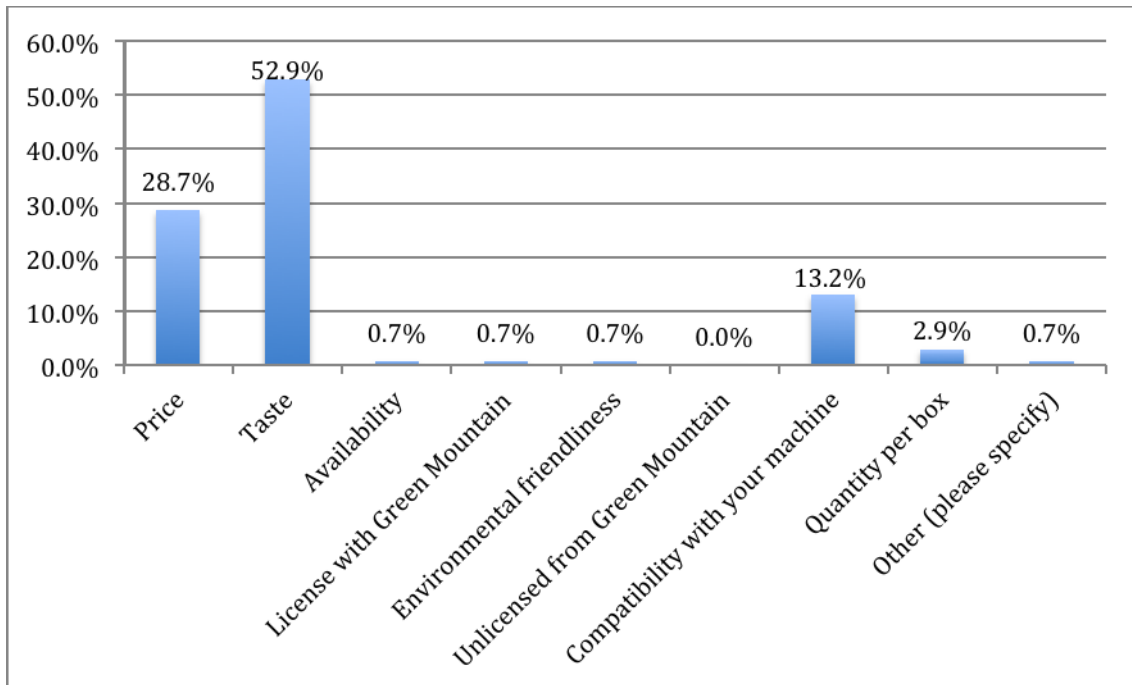


Keurig Green Mountain

7. What factors go into your decision on which coffee pods to purchase? (select all that apply)

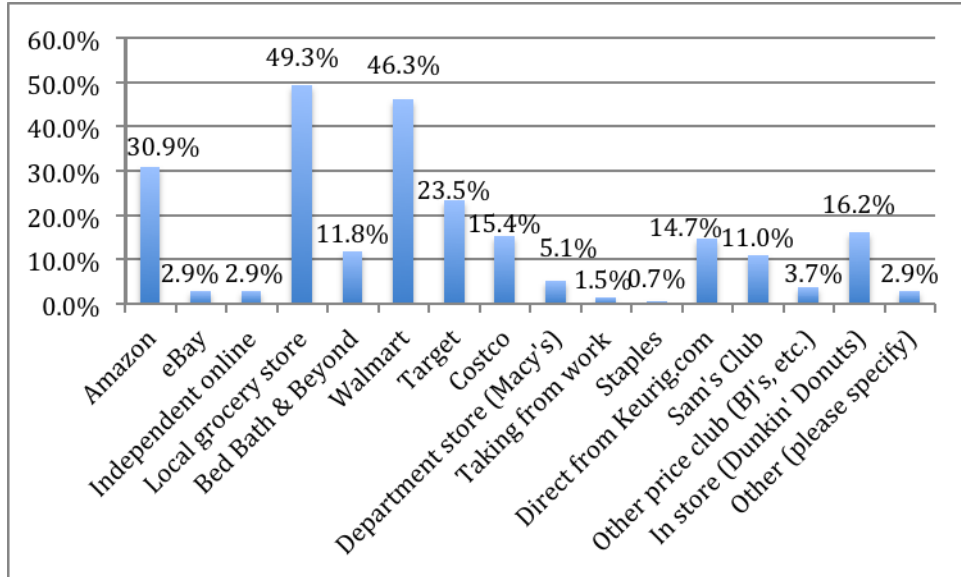


8. Which is the most important factor in your decision on which coffee pods to purchase?

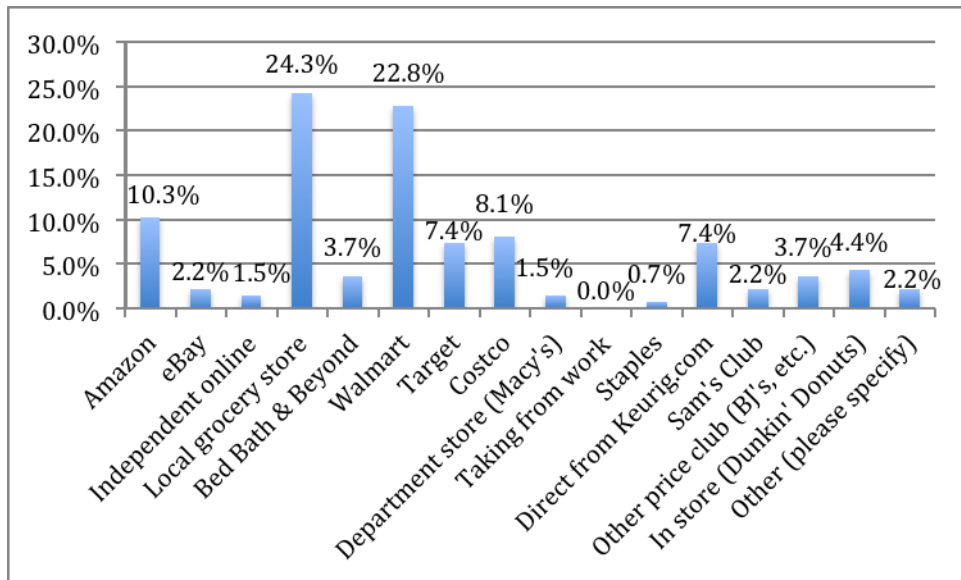


Keurig Green Mountain

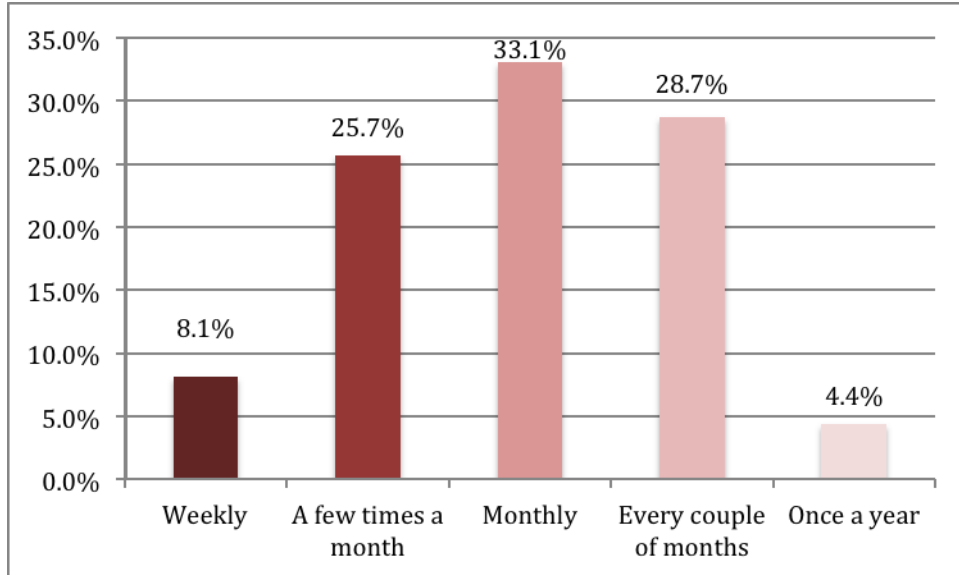
9. Where do you buy your coffee pods? (select all that apply)



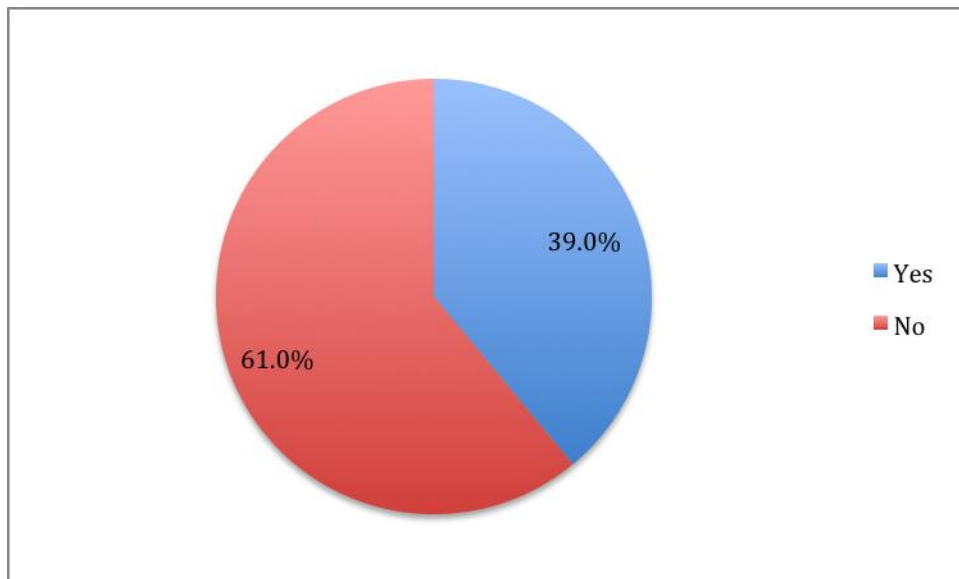
10. Where do you buy your coffee pods most?



11. How often do you buy your coffee pods?

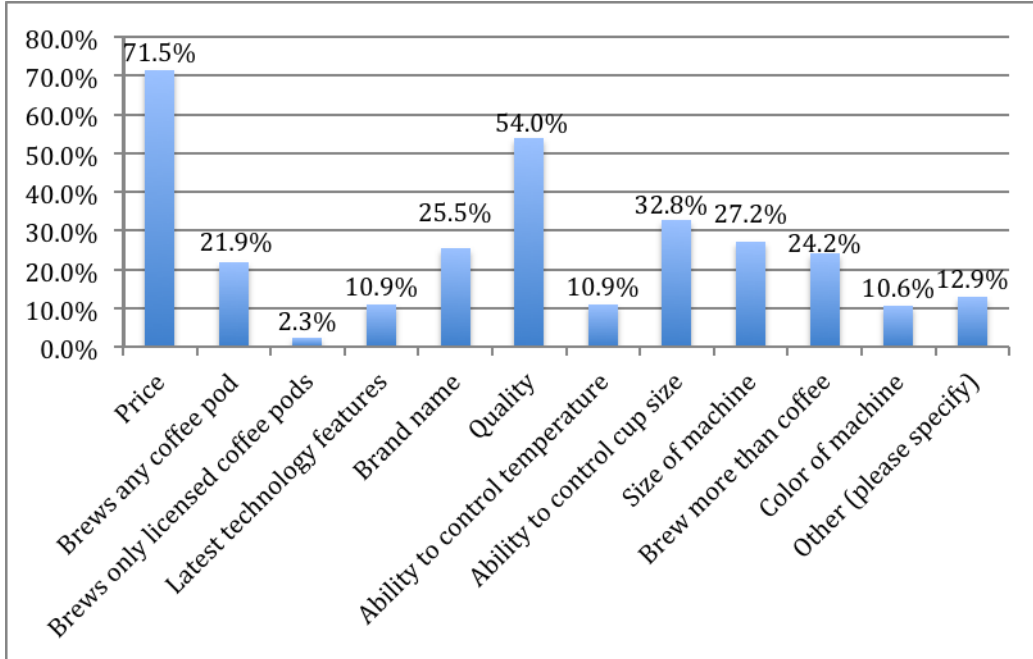


12. Are you buying more unlicensed K-Cups (Gevalia, Maxwell House, Grocery store private labels, [Grove Square](#), [Caza Trail](#), Marley Coffee, [Martinson Coffee](#)) than 3 months ago?

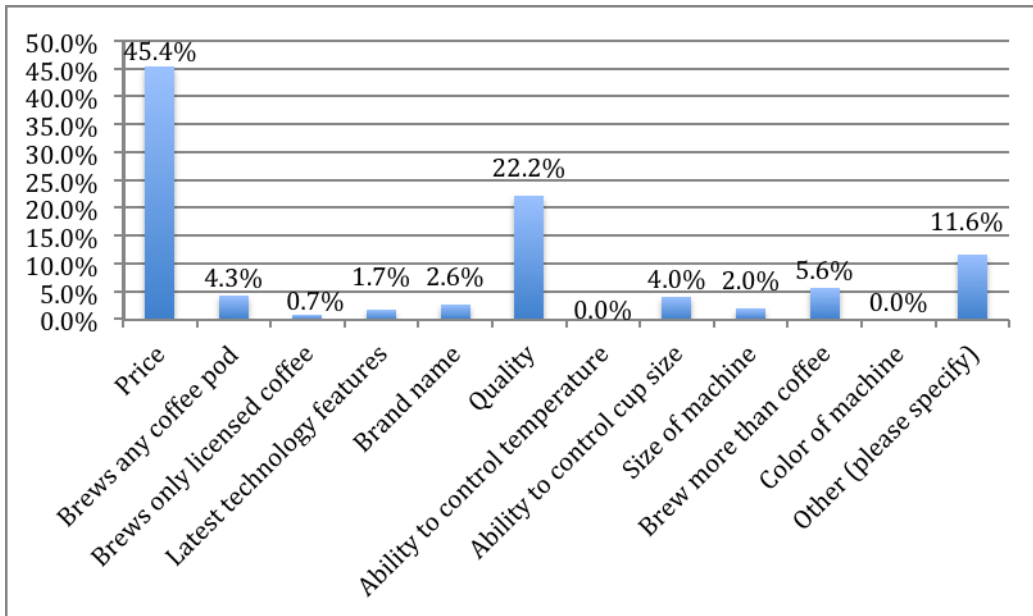


Keurig Green Mountain

13. Which factors go into your decision of which single-serve machine to buy? (select all that apply)

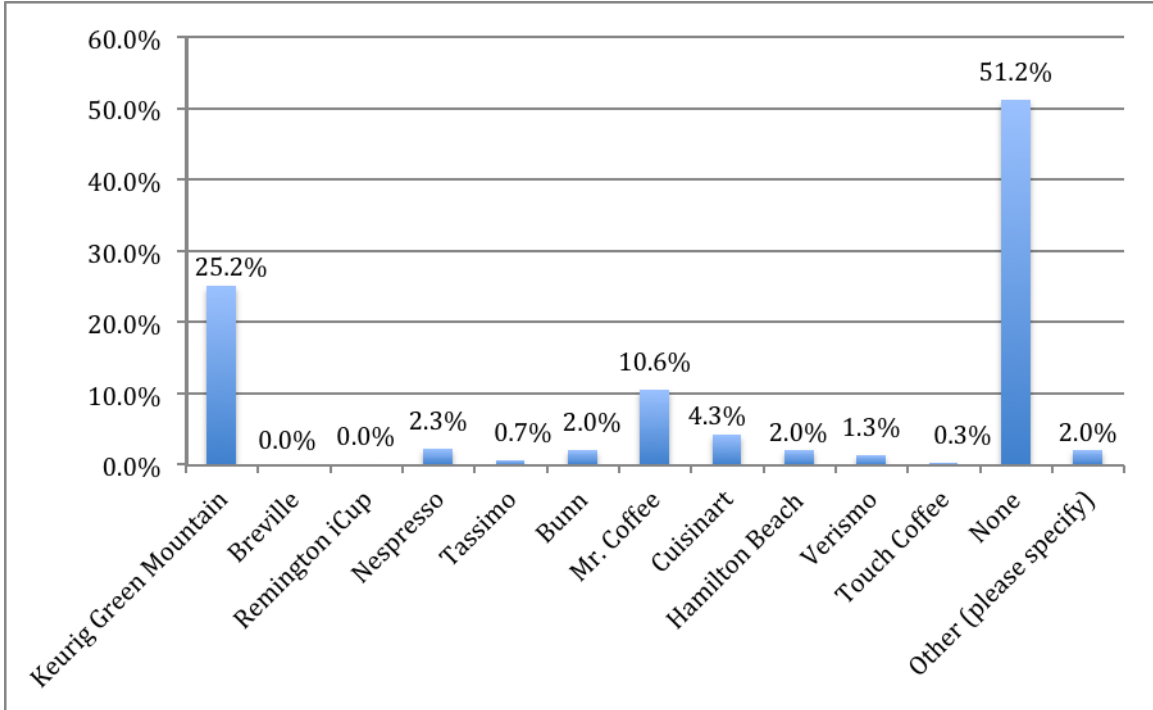


14. Which is the most important factor in your decision on which single-serve coffee machine to buy?

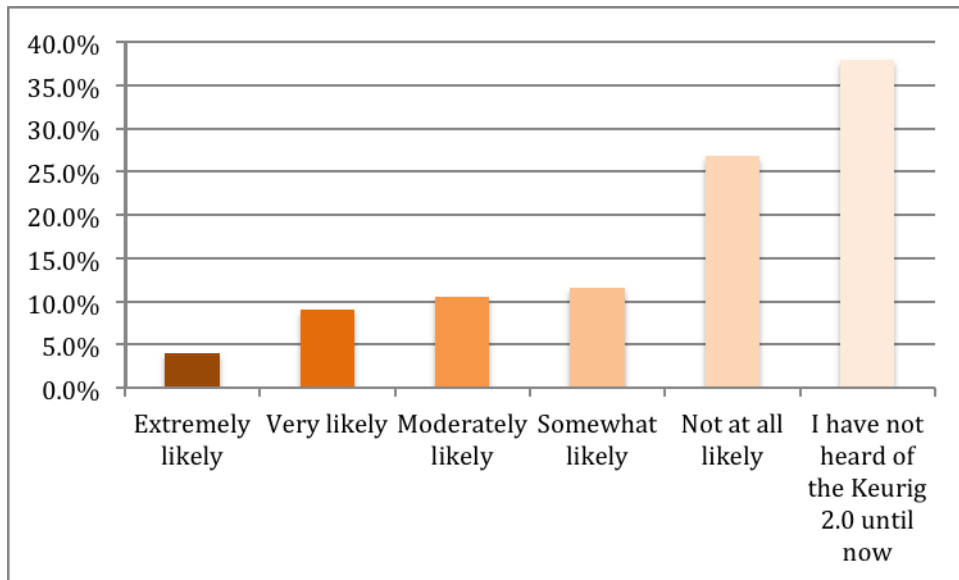


Keurig Green Mountain

15. Which brand of single-serve coffee machines are you likely to purchase in the next 12 months?

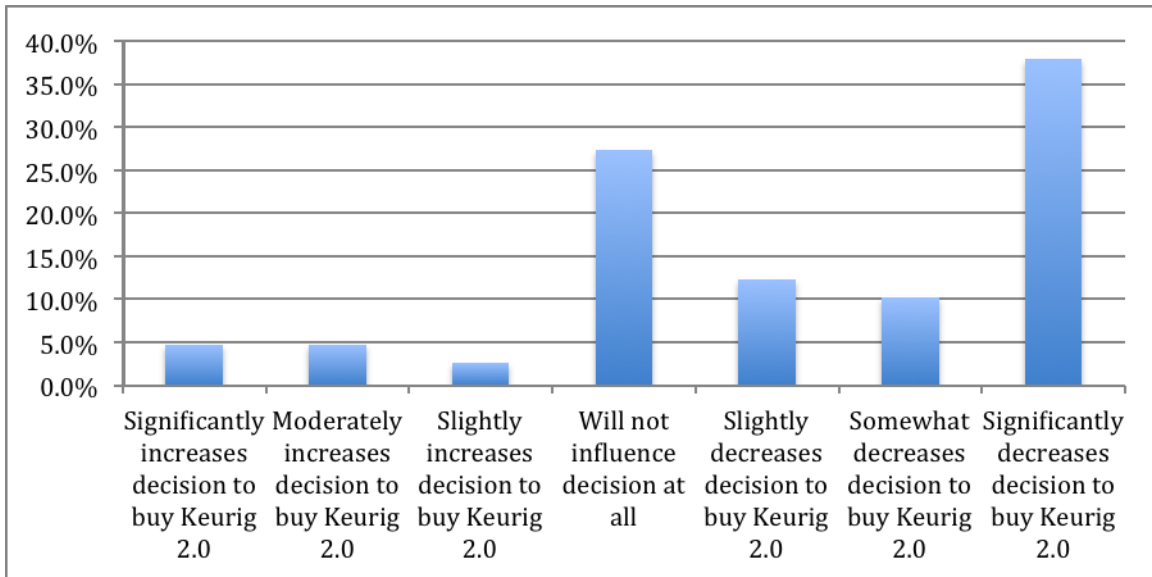


16. How likely are you to purchase the new Keurig 2.0 single-serve brewer that will become available in Fall 2014?



Keurig Green Mountain

17. Keurig 2.0 will not accept unlicensed K-Cups like Gevalia, Maxwell House, Grocery store private labels, Grove Square, Caza Trail, Marley Coffee, Martinson Coffee. How will that influence your decision to purchase Keurig 2.0?



Secondary Sources

The following seven articles show responses to the new Keurig 2.0 and the unlicensed K-cup market.

[Keurig 2.0](#)

The following four articles show details of the Keurig 2.0, a negative review of the Keurig 2.0 due to it limiting the freedom of coffee drinkers, a consumer and [TreeHouse Foods Inc.](#) (THS) filing lawsuits against the Keurig 2.0, and one consumer wanting to adopt the Keurig 2.0 to get the best quality coffee available.

March 5 Stuff [article](#)

Green Mountain is using a DRM system in its new Keurig 2.0 to limit Keurig users to the company's K-Cups, limiting the sales of cheaper unlicensed brands.

- "Keurig, a coffee and coffee machine manufacturer has, according to a report from [Techdirt](#), decided to try and apply DRM to their next-gen coffee machines. DRM (Digital rights management) is typically found in digital media like CDs, DVDs and video games and is designed to prevent unauthorized copying of the product."
- "The "Keurig 2.0", the company's upcoming machine, will reportedly not be able to interact with any third-party coffee pods and as such completely limiting Keurig users to the company's coffee pods. The point seems to be limiting sales of cheaper (but generic) coffee pods for their kit."

March Coffeelcon Superstore blog [article](#)

Keurig 2.0 will limit the freedom of users, with one customer saying they would not buy the new brewer if they could only use licensed K-Cups.

- "Living in America means Freedom. Americans have become accustomed to being free thanks to our military and ancestors who have fought for Freedom in America."
- "You wouldn't normally associate freedom with coffee—but we do here at Coffeelcon.com."
- "Our largest seller, by far has been in the single cup world—also known as the K-Cup®."

Keurig Green Mountain

- “With Keurigs® new machines called the Keurig® 2.0; your ability to brew competitor’s single-serve portion pack coffee is being “locked out” according to Keurigs® press releases. The new 2.0 will ONLY brew Keurig® branded K-Cups®, and NOT the hundreds of new single-serve portion packs that you have recently come to love and enjoy.”
- “At Coffeelcon, we sell all makes and models of single cups like Martinson’s®, Marleys Coffee®, Brown Gold®, Second Cup®, Brooklyn Beans®, Cake Boss®, Guy Fieri,®, San Francisco Bay®, Red Rose®, Caza Trail®, and so much more.”
- “Coffeelcon has more than 200 alternative branded single-serve cups to choose from these great new coffee companies. If you buy the Keurig® 2.0 brewer, you will no longer have the ability to brew these wonderful and less expensive coffees anymore.”
- “Most consumers’ first reaction is “I won’t buy another Keurig® Brewer if they do that”. Well, according to Keurig®, they ARE doing that. They are taking your freedom away if you choose to buy their machine. Keurig® says it has enough brands from you to choose from.”
- “You may see some of your favorites in that list—but remember, there are new brands and flavors emerging every month. This being America, our land is full of innovation. We will soon see an entire “open platform” of brewers hitting the market this year. We will be selling these brewers and these will allow you to have the freedom to enjoy whatever you want to drink in the K-style format. Also coming soon is a “taller” cup that with a retro fit kit, will allow you to brew a Faster, bigger and bolder cup of coffee.”
- “[Touch Beverage®](#), Remington® iCup, Hamilton Beach, [RealCup Brewer](#), [Tru Brewers](#) and BUNN all have single cup brewers coming that will change the way you brew a K-Cup®. As we like to call it here at Coffeelcon—“Freedom of Choice”!”
- “The current style of Keurig® Brewers should be sold for a good while through 2014-2015. Plus if you currently have a Keurig® Brewer of some type, you should be fine for now. The newly redesigned K-Cups® should brew just fine in your current Keurig® brewer, as well as in all of these new open style platform brewers. The current Keurig® brewers should continue to brew just fine but when it does come time to purchase a new brewer, feel free to check with us on your choices and on our website so that you won’t have to stand in a long return line behind the other customers who are returning their Keurig® 2.0 brewer because they just found out that they now lost their freedom to brew their favorite coffee.”

March 11 Businessweek [article](#)

One consumer and TreeHouse Foods have separately filed lawsuits against Green Mountain’s Keurig 2.0 due to the design enabling Green Mountain to have a monopoly-like hold on the K-Cup market. Having competitors produce coffee pods will allow consumers to benefit in pricing and assortment.

- “A lawsuit filed on March 10 by a Florida consumer, Judy Hoyer, claims that because the 2.0 machines “lock out” unlicensed pods, consumers may not have access to their preferred brands or to lower-cost options offered by rival manufacturers. The design of the Keurig 2.0 machines only helps the company “maintain its monopoly over the markets for the sale of portion packs and compatible cups by excluding competition and the lower-priced competitive cups,” according to the complaint.”
- “Hoyer’s complaints are similar to [a separate suit](#) filed in February by TreeHouse Foods (THS), an Illinois-based pod maker seeking an unspecified award for punitive damages, according to the Associated Press. TreeHouse Chief Executive Officer Sam Reed argues that allowing competitors to produce pods for Keurig machines results in such consumer benefits as better pricing and assortment.”
- ““We believe the suit is totally without merit and we intend to defend it vigorously,” said Green Mountain spokeswoman Suzanne DuLong in an e-mail. Because Keurig 2.0 machines are designed to optimize the beverage with specific recipes, she added, ‘it is critical for beverage quality that the system only brews Keurig brand packs.’ All of the roughly 50 brands currently sold in K-Cups will be available for the new machine.”

March 7 CNN Tech [article](#)

A review of the Keurig 2.0 shows backlash from consumers whose favorite flavors are unlicensed brands and worry about price inflation, but one consumer is buying into Keurig 2.0 to keep each brew as high-quality as the last.

- “I use a Keurig coffee machine at home because I’m lazy. And, quite frankly, don’t feel like I’ve really done my duty to God and country until I’ve added a little something to the landfill.”
- “So, essentially, our coffee is going bionic, and if your current pod doesn’t have that taggant, it’s no coffee for you! This includes my OneCups from San Francisco Bay.”

Keurig Green Mountain

- “Green Mountain argues that its new advancements in roasting and flavor extraction, as well as thermodynamics, have been expertly developed to ensure perfect consistency with each cup.”
- “Therefore, Kate Binette, senior public relations specialist from Green Mountain told me, ‘It is critical for performance and safety reasons that the system only brews Keurig brand packs.’”
- “My co-worker, Tiago, says he doesn’t want somebody’s inferior brand of K-Cup malfunctioning and screwing up his system, declaring from his desk three cubicles away, ‘The sanctity of the K-Cup should be respected!’”
- “Anyway, while Keurig says adding DRM is all about performance, Jon Rogers, founder and president of the Rogers Family Company (makers of my San Francisco Bay coffee) calls it ‘baloney.’”
- “He thinks it’s all about money and keeping *non*-Green Mountain coffee out of *your* hands. By e-mail, he explained to me, ‘Prices would be higher to the consumer. Innovation would be stifled.’”
- “Whatever happens, it’ll be interesting to see this play out over the coming months. But I *do* have to say that the new Keurigs are really sexy. Plus, in addition to brewing single cups, they’ll also do full carafes.”

Unlicensed K-Cups

The following three articles show unlicensed K-cups growing in popularity as they currently make up 14% of the K-cup market, Starbucks giving up its exclusive deal with Keurig, and McDonald’s entering the K-cup market with a deal with Kraft.

March 10 The Motley Fool [article](#)

Unlicensed K-cups are growing in popularity as they currently make up 14% of the K-Cup market.

- “Green Mountain operates under what’s known as the razor-and-blades model. The company sells its brewing systems at minimal profits in order to reap the sales of K-cups. In the first-quarter report, K-cups—or the packs segment—accounted for more than 67% of total revenue.”
- “Green Mountain has signed exclusive partnerships with a long list of big-name brands, including Starbucks and Dunkin’ Donuts. The early licensees had no choice but to sign up because Green Mountain had the K-cup patent. But latecomers continue to sign agreements to take advantage of Green Mountain’s well-positioned distribution services.”
- “But now Green Mountain plans to release new Keurig machines this year that won’t work with any unlicensed pods. That has ticked off competitors that justifiably feel bullied into signing up for agreements.”
- “Keurigs aren’t the only single-pod brewing system on the market: Starbucks has the Verismo. Nestle has the Nespresso. And Bunn has the MyCafe, which stands out because it’s compatible with any type of K-cups. The second fact is that Green Mountain has to try and squash the unlicensed competition as much as possible.”
- “In the first-quarter conference call last month, Green Mountain execs said that unlicensed packs accounted for about 14% of the K-cup pods used, and it expects that number to grow during the first half of 2014. That number would presumably grow even higher if Green Mountain wasn’t releasing the Keurig 2.0 system within the next year.”
- “Green Mountain needs K-cup sales to stay in business. If the company lost a significant share of the market, Green Mountain couldn’t afford to create any more brewers. So the company has to try and earn more licensing agreements while staving off the competition – at least until the Keurig Cold launches sometime next year. The Keurig Cold might bring along a new batch of patent protections, and has, at the very least, already attracted a superstar partner in Coca-Cola.”

March 14 Seattle Times [article](#)

Starbucks is giving up being the exclusive supplier of super-premium coffee for the Keurig, allowing Starbucks to market a wider variety of pods and opens the gates for partnerships with Green Mountain, like the first with Peet’s Coffee & Tea, to eat into Starbucks 15% hold on the market for premium K-Cups.

- “Starbucks agreed to give up its role as the exclusive purveyor of ‘super premium’ coffee for the Keurig K-cup brewing system, as Keurig Green Mountain devises new strategies to fend off a recent surge in competitors in the burgeoning market for single-serve coffee pods.”
- “The companies announced Friday that their licensing deal was amended in exchange for ‘improved business terms’ for Starbucks and the opportunity to market a wider variety of pods.”
- “Starbucks has been an important partner for Keurig, launching licensed K-cups in late 2011, and last year signed a five-year agreement that allowed Starbucks to add more brands to its K-cup lineup. Through the end of last year,

Keurig Green Mountain

Starbucks had shipped about 2 billion K-cup pods, a key element in the coffee giant's bid to diversify beyond its coffee shops and into grocery aisles."

- "The renegotiated arrangement opens a door for rivals partnering with Keurig to compete for Starbucks' share of the U.S. market for premium K-cups, which Starbucks executives in a recent earnings call put at 15 percent."
- "The first of these partnerships was also unveiled Friday—a Keurig deal with Peet's Coffee & Tea, which last year began producing unlicensed K-cups."
- "The deal comes in the wake of recent comments by Keurig executives about luring unlicensed K-cup makers into partnerships in order to regain control of the market."
- "The executives have also said that they expect the market share of unlicensed K-cups, which stands at 14 percent, to decline in the second half of 2014 as more unlicensed players come into Keurig's fold."

April 7 Retail Wire [article](#)

McDonald's has entered the single-serve market with a wide variety of K-cups through a partnership with Kraft.

- "McDonald's recent announcement that it would be soon be handing out free coffee at its U.S. restaurants for two weeks set off wide speculation about how serious the fast food chain is about coffee, both at its own locations and in grocery aisles."
- "From March 31 to April 13, free McCafe coffee will be available during breakfast hours. "Make Friends with McCafe" sampling events are also being hosted at high traffic locations and transportation hubs in multiple cities across the country. A [Twitter Inc.](#) [TWTR] campaign is also involved."
- "Some weren't surprised that the promotion arrived amid reports that McDonald's partnership with Kraft Foods has begun testing bagged McCafe in retail stores. McCafe Premium Roast coffee has been sold in Canada's grocers since late 2012, but [Burgerbusiness.com](#) reported that a Wegmans [Food Markets Inc.] supermarket in Mechanicsburg, PA was selling a wide selection of McCafe coffee, including Premium Roast, Breakfast Blend, French Roast and Decaf Premium, with ground priced at \$7.29."
- "Several varieties of McCafe K-cups were also being sold, with many expecting single-serve cups to drive the category in the years ahead. Mintel predicts the single-serve-pod market could account for 50 percent of coffee sales by 2018."

Additional research by Scott Martin, Renee Euchner, Tina Strasser, Kevin Murphy, Erica Franklin and Jacqueline Fox

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