Allegra
ProjectCafé10
EUROPE

State of the Market: Insights from Project Café 10 Europe

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Agenda

About Allegra Strategies

State of the market

Seven key market influences

The future market place

About Allegra Strategies

- Leading research consultancy focus on Foodservice, Leisure and Retail
- Pioneering work in the UK and European coffee sector for 12 years
- Project Café UK and Europe definitive reports
- European Coffee Symposium
- UK Coffee Week 2011

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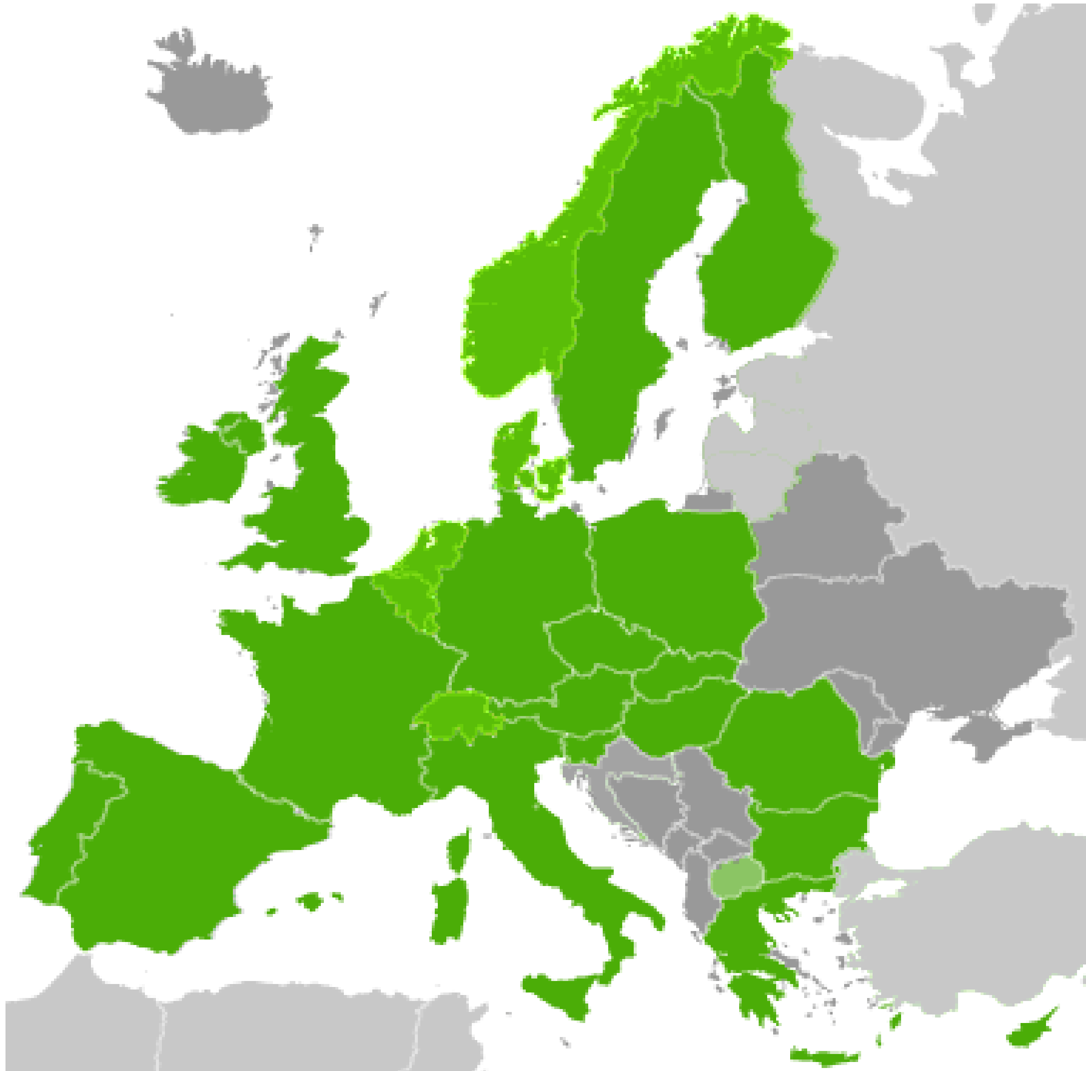
Leading European Markets

MARKET SIZE BY COUNTRY, OCTOBER 2010

Country	Oct '2009	Oct '2010
UK	4,318	4,498
Germany	1,683	1,832
Spain	904	872
Greece	404	415
Italy	399	386
France	316	376
Ireland	389	374
Poland	341	361
Portugal	272	284
Austria	231	280
Sweden	210	214
Czech Republic	153	161
Switzerland	131	141
Hungary	124	129
Netherlands	110	119
Romania	101	107
Finland	83	92
Denmark	93	80
Bulgaria	56	66
Slovakia	62	64
Norway	58	62
Belgium	30	38
	10,468	10,951

- The European branded coffee shop market (22 countries) is estimated at **10,951 outlets** in October 2010
- The market has added 483 stores in the last 12 months, to record growth of **4.6% in outlets for the year**, slower than the 8.5% achieved in 2009

Scope of Allegra Cafe10 Europe Report



Top 15 European Branded Coffee Chains

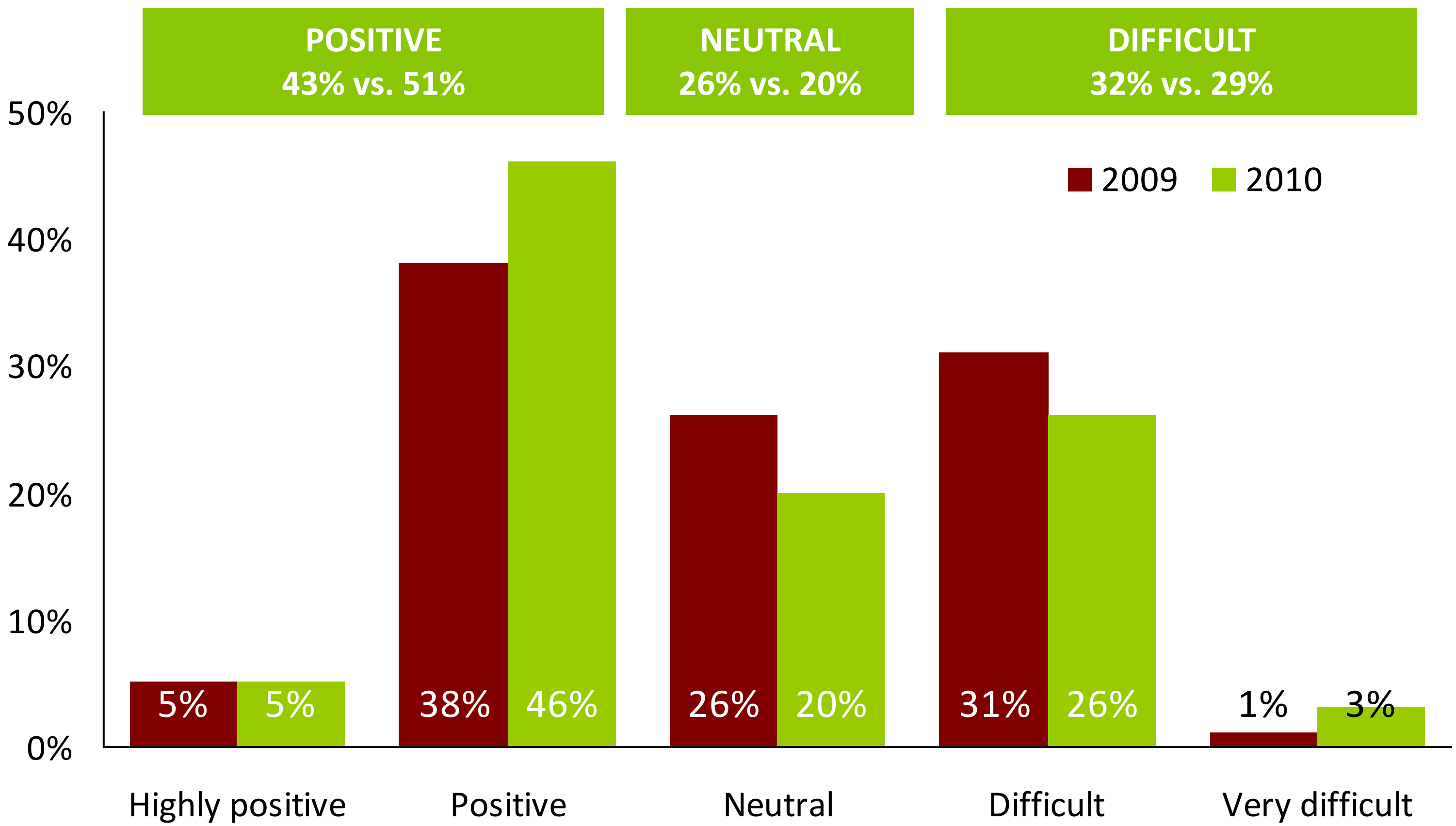
Rank	Brand	Oct-09	Oct -10	Outlets Added (net)	Growth Rate
1	**Costa Coffee**	**1,047**	**1,248**	**201**	**19%**
2	**Starbucks Coffee Company**	**1,183**	**1,138**	**-45**	**-4%**
3	**McCafé**	**893**	**1,101**	**208**	**23%**
4	Caffè Nero	395	429	34	9%
5	Segafredo Zanetti Espresso	270	270	0	0%
6	Caffè Dallucci	195	234	39	20%
7	Gregory – Coffeeright	220	233	13	6%
8	Caffè Ritazza	320	221	-99	-31%
9	Pret A Manger	195	213	18	9%
10	O'Briens	194	158	-36	-19%
11	Café & Té	144	151	7	5%
12	Greggs	118	140	22	19%
13	Coffeeshop Company	141	134	-7	-5%
14	Espressamente Illy	136	133	-3	-2%
15	Pumpkin	126	123	-3	-2%

The three leading branded coffee chains, Costa Coffee, Starbucks Coffee Company and McCafé **have a 32% market share**

Current Trading Conditions

CURRENT TRADING ENVIRONMENT, 2009-2010

How would you describe the current trading environment for coffee shops and cafés in your country?

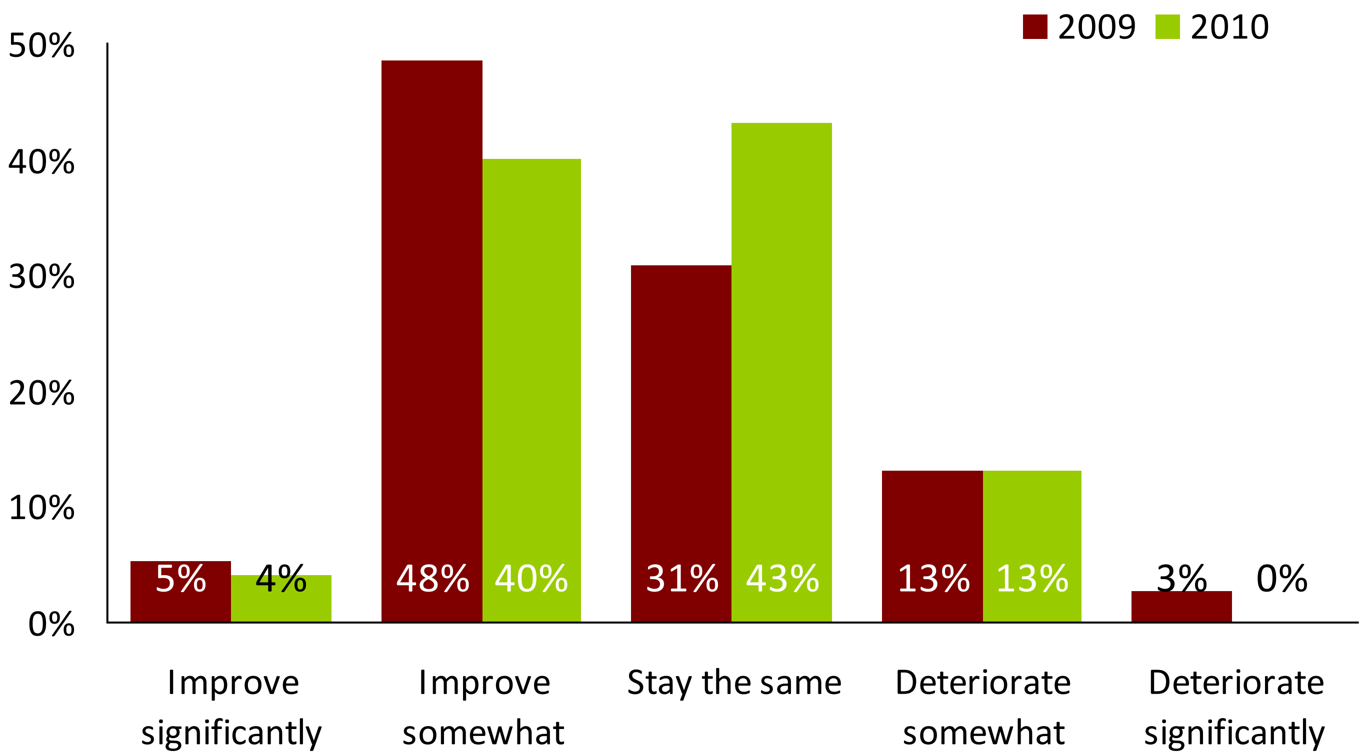


Short-Term Trading Expectations

TRADING EXPECTATIONS FOR THE NEXT 3-6 MONTHS, 2009-2010

Do you expect trading conditions for the coffee shop sector to improve or deteriorate over the next 3-6 months?

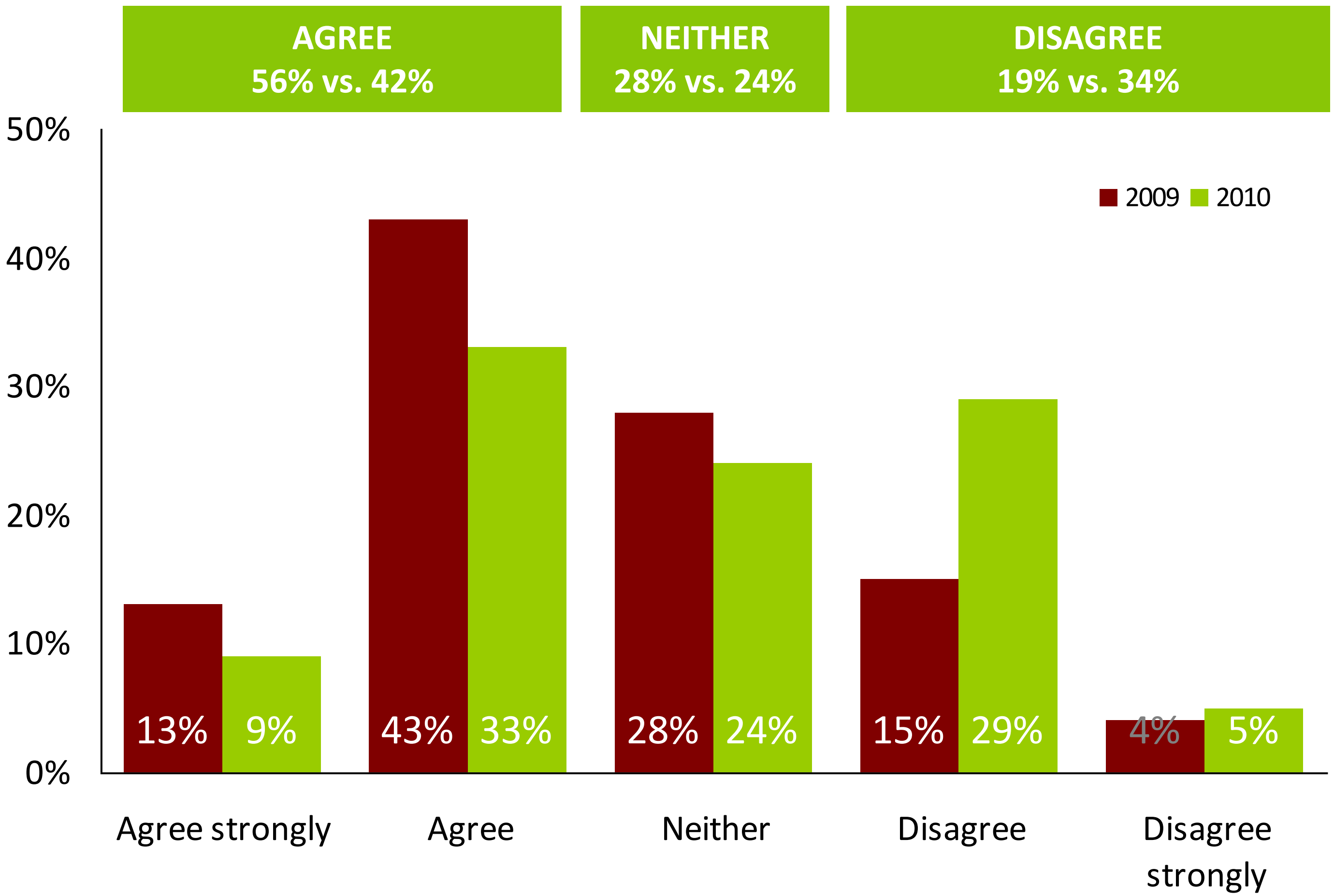
IMPROVE	NO CHANGE	DETERIORATE
53% vs. 44%	31% vs. 43%	16% vs. 13%



Consumer Confidence Growing

DECLINING CONSUMER SPEND, 2009-2010

Consumer spend per visit is definitely declining as consumers cut back on spending.



Key Consumer Trends

"What are the most important consumer trends affecting the coffee shop market?"

CONSUMER TRENDS	% 2010	RANK 2010	RANK 2009	CHANGE
GROWTH OF SPECIALTY COFFEE CULTURE	33%	1	2	↑
PRICE CONSCIOUSNESS	26%	2	1	↓
DEMANDING CUSTOMERS	22%	3	3	=
KNOWLEGDEABLE CUSTOMERS	19%	4	4	=
RISING COST OF LIVING	16%	=5	=5	=
CONVENIENCE	16%	=5	=5	=
MORE MOBILE LIFESTYLES	14%	=7	=7	=
RISE OF BRANDED CHAINS	14%	=7	=7	=

Key Success Factors

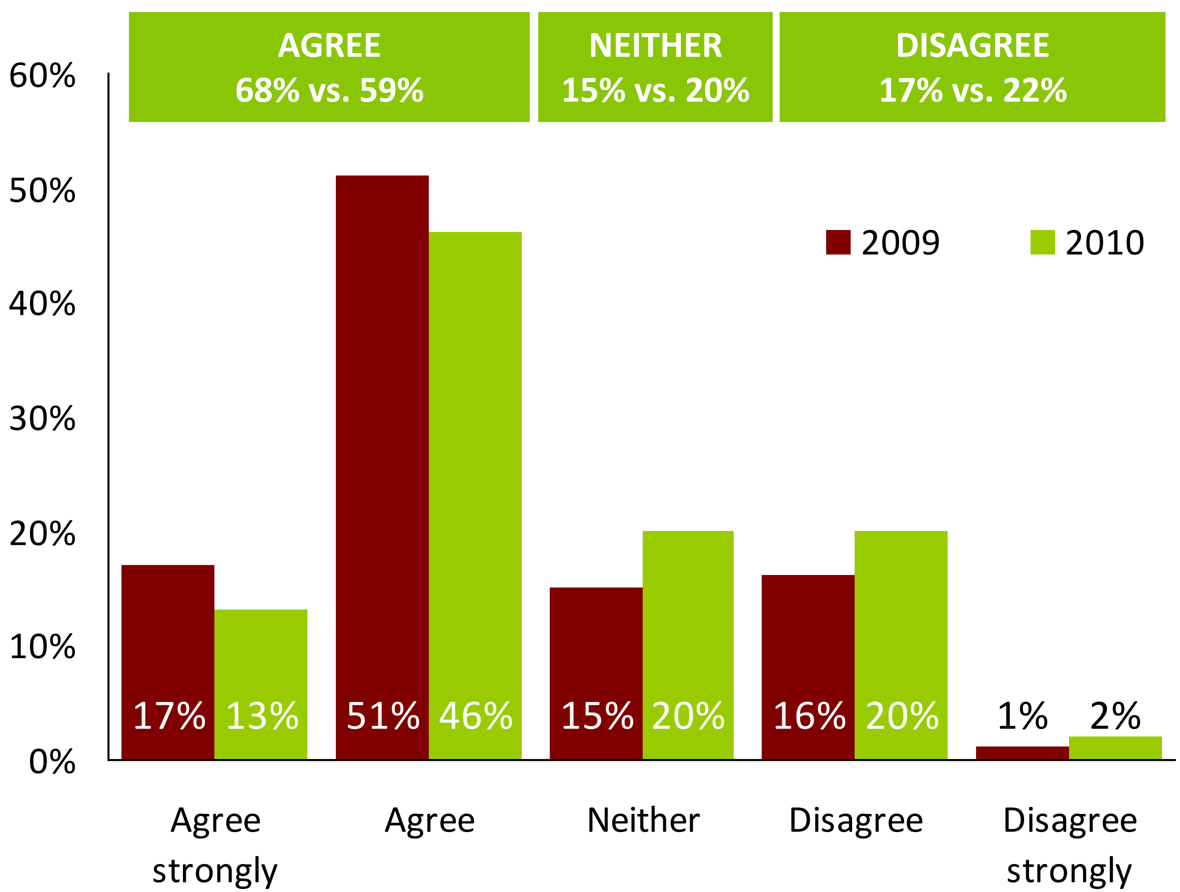
"What has the greatest impact on the performance of a coffee shop?"

SUCCESS FACTOR	% 2010	RANK 2010	RANK 2009	CHANGE
GOOD LOCATION	49%	1	1	=
QUALITY OF COFFEE	47%	2	2	=
ATMOSPHERE	**27%**	3	4	↑
GOOD VALUE FOR MONEY	25%	4	3	↓
FAST AND EFFICIENT SERVICE	24%	5	5	=
STRONG BRAND IDENTITY	17%	6	6	=
EFFECTIVE MANAGEMENT	15%	7	8	↑
CONSISTENCY	11%	8	7	↓

Growth for Branded Chains

FUTURE OPPORTUNITIES

There is still plenty of growth for branded coffee shops in my country.



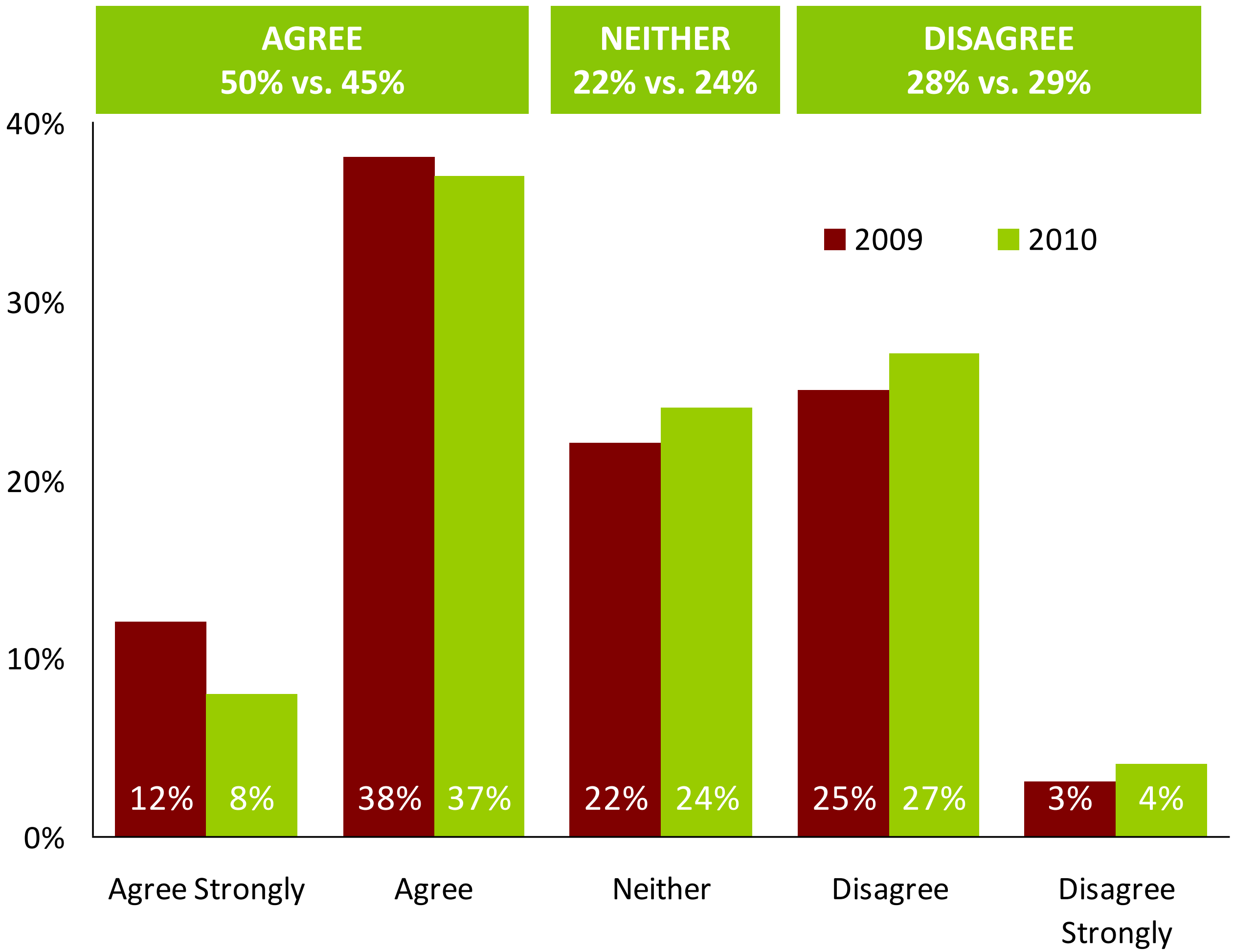
"We are experiencing a turning point in our coffee culture with a steady growth in number of consumers visiting branded coffee shops."

[Marketing Manager, Coffee-focused Chain, France]

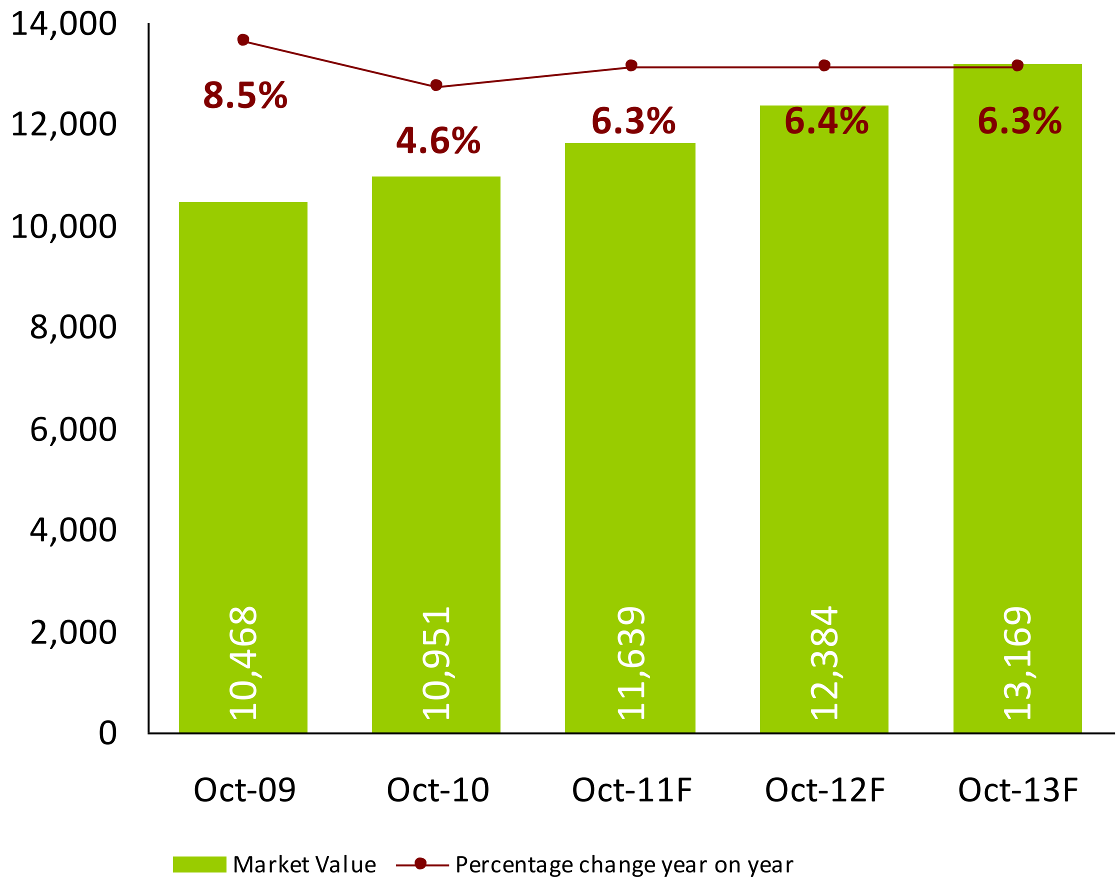
Importance of Branded Chains

IMPORTANCE OF BRANDED CHAINS

Branded chains will grow in importance compared to independent coffee shops.



Market Growth Forecast



The European branded market is forecast to grow at a compound annual rate of **6.3% over the next 3 years to exceed 13,000 outlets by 2013.**

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1. Artisanal / Third Wave Coffee

What is the Third Wave?

- Craft of coffee
- Passion for quality
- Authenticity
- Environment & theatre
- Led by independents

"The rise of artisanal independents and the new 'Third Wave' of coffee culture is having a huge impact on the major branded chains."
[Jeffrey Young, Allegra Strategies, May 2009]

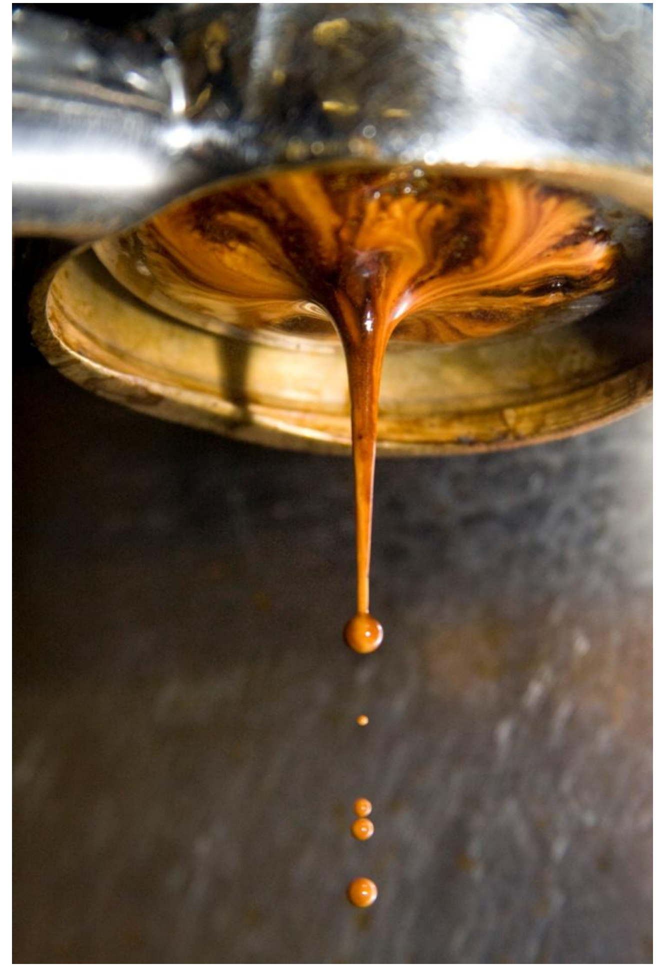
1. Threats & Opportunities

Threats

- Lower sales for run-of-the-mill operators
- Chain fatigue
- Distraction with a niche market

Opportunities

- Education of coffee consumers
- Higher prices
- Focus on quality
- Customer engagement
- Coffee credentials / higher margins



2. Coffee Pod Systems

- Multi-billion pound/euro business representing a paradigm shift in home coffee drinking
- Replicating roast and ground (espresso) experience in the home
- Premium product innovation led by large global multinationals

Senseo Douwe Egberts PHILIPS

TASSIMO TOGETHER IS BETTER.

NESPRESSO

2. Threats & Opportunities

Threats

- Replacing out-of-home coffee consumption
- Loss of sales in office-based locations
- Greater cost consciousness
- Further multi-national dominance

Opportunities

- Mass-market appeal reaching new audiences
- Greater appreciation of quality coffee
- Price premium for in-store experience

3. Mobile Internet

- iPhone & Blackberry devices changing consumer time-space interaction
- Creating a new generation of highly savvy consumers
- Changing the way we communicate with each other

3. Threats & Opportunities

Threats

- Depersonalised communication
- Consumer spend deflection
- Yet another consumer channel
- Greater consumer awareness of choices

Opportunities

- Exciting marketing tool (apps)
- Highly relevant location-based services
- One-to-one customer dialogue
- Social media
- Payment technology
- Loyalty programmes
- Greater mobility means more take-out

4. Online Retailing

- A greater percentage of shopping pound going to online retailers
- A surprising number of products and services we thought consumers would never buy online
- Rapidly changing the retail landscape

4. Threats & Opportunities

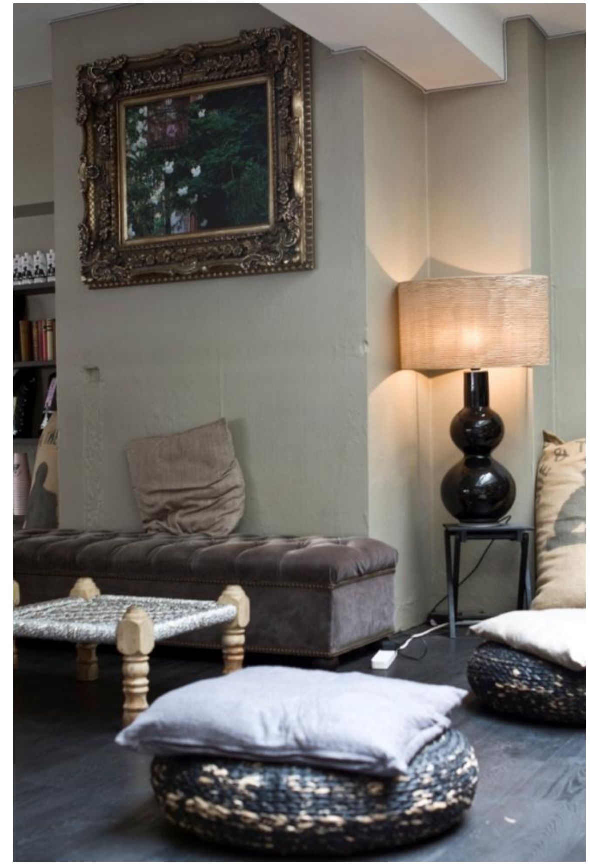
Threats

- Virtual consumers spending less time in physical locations
- Abandoning of high streets
- More fragmented harder to reach consumers
- Data overload / Security issues

- Customer databases
- More targeted marketing
- Greater customer engagement
- Loyalty programmes
- More property opportunities for foodservice operators on High Streets and shopping centres
- Provide customers with information

5. Growing Importance of Store Environment

- Retail megatrend
- Providing customers an 'experience'
- A place to relax and enjoy
- A place to eat
- A place to socialise



Joe & the Juice

5. Threats & Opportunities

Threats

- Consumers dwell times increase / lower table turns
- Increased costs to build stores
- Less focus on product – style over substance?

Opportunities

- Third place capturing greater customer brand time-share
- Physical customer engagement
- Opportunity to showcase product and service offer
- Increased loyalty, more frequent visits
- Brand differentiation

6. Ageing Market

- Today 34% of the UK adult population is aged 55 and over
- By 2020 the ‘Silver’ consumer will be 38% of UK population
- The grey consumer controls the most wealth
- Medical, technological and social advancements mean that people are living longer

Age Range	% Share of 2010 Adult Popn	% Share of 2020 Adult Popn	2010-2020 % Growth Rate
15-24	16%	14%	-9%
25-34	16%	17%	15%
35-44	17%	15%	-5%
45-54	17%	16%	2%
55-64	14%	15%	11%
65+	20%	23%	23%

Source: ONS, Allegra Analysis

6. Threats & Opportunities

Threats

- Older consumers are less likely to eat out
- Less adventurous
- Tea drinkers

Opportunities

- High disposable income
- Treat and comfort driven
- Behaviour is getting younger
- Becoming more mobile

7. Sustainability Agenda

- In Allegra’s 2010 Top of Mind™ survey 92% of Senior industry executives stated that Sustainability is having a real impact on their businesses
- Long-term shift in consumer mindsets
- Only way forward for <u>younger</u> and <u>older</u> consumers

7. Threats & Opportunities

Threats

- Increased costs
- Business imposition
- Increased regulation
- Declining take-away sales
- Demonising packaging

Opportunities

- Cleaner societies
- Ethical brand positioning
- Provenance / Localness
- Lower costs
- Innovation

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The future market place

- Highly, highly **competitive**
- Growing influence of **branded chains** across Europe but with more **artisanal elements**
- **Increased quality** of all elements – product, packaging, service delivery, environment etc.
- Reaching **new customers** in new markets
- **Innovation** across brands, products, environment and channels to market
- **Increased human engagement** via in-store service and advanced technologies

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