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# Coffee Pods Still Exciting Brazil's Coffee Industry

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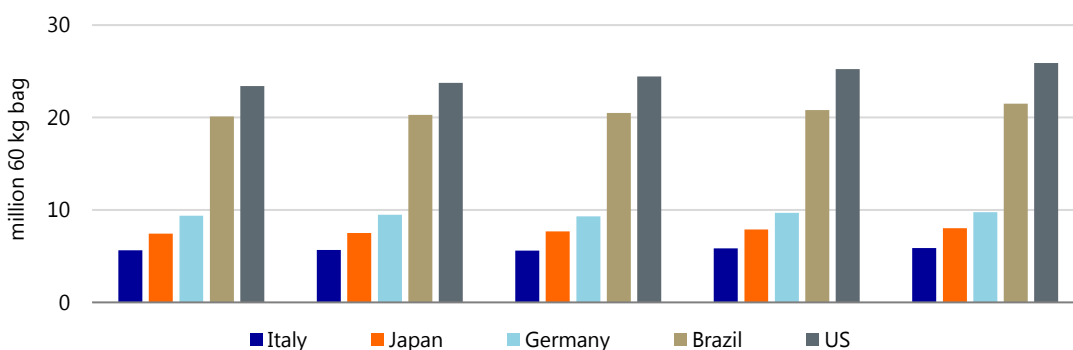
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## Summary

Brazilian demand for coffee pods has been increasing in recent years and is forecast to continue rising. Some important players in the Brazilian market are starting to make strategic moves to take advantage of this opportunity.

It is well-known that Brazil is one of the main coffee consuming countries in the world. In fact it is the second-largest consumer in the world, and it has been showing a steady increase in demand. According to the latest Brazilian Coffee Industry Association (ABIC) data, coffee consumption increased by 3.3% in 2017, reaching 21.5 million bags (see Figure 1).

Figure 1: Coffee consumption of main world players, 2013-2017

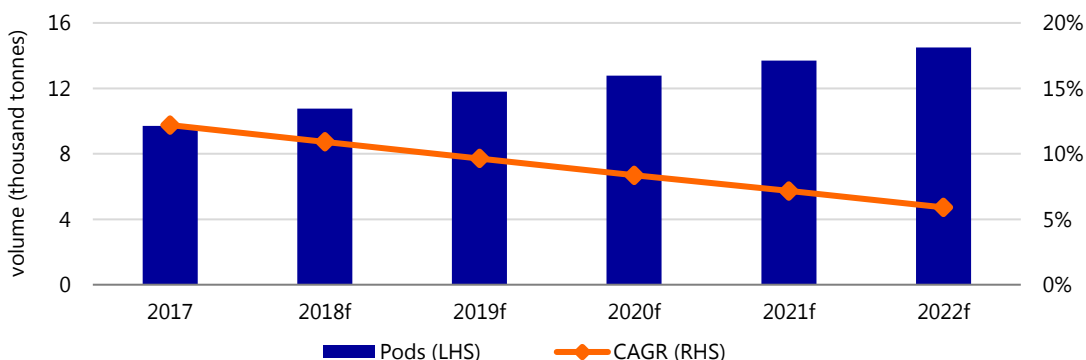


Source: ABIC, ICO, USDA, Rabobank 2018

Among the various available formats, coffee pods are rapidly increasing in popularity in Brazil. The demand for capsules has been increasing in recent years and is forecast to continue rising. The rate of consumption growth will slow in the coming years, but will still average a very healthy 8%, significantly outpacing the growth of the overall Brazilian coffee market (see Figure 2).

Given this expectation, some important players in the market have already started to make strategic moves to take advantage of this opportunity, through M&A movements and investments.

Figure 2: Brazilian coffee pods consumption, 2017-2022f



Source: Euromonitor, Rabobank 2018

In 2013, Jacobs Douwe Egberts (JDE) introduced coffee pods under the L'OR brand in Brazil. In 2015, the company released 'Café Pilão Coffee Pods' under the Pilão brand, which is very popular among Brazilian consumers. Both L'OR and Pilão brands are compatible with the Nespresso machines.

## Nestlé doubles capsule production

In 2016, Nestlé invested BRL 220 million to build the first factory of Nescafé Dolce Gusto outside of Europe, in Montes Claros, Brazil. Recently, the company announced an additional investment of BRL 200 million in that same plant with the objective of doubling its production capacity of multi-beverage capsules (coffee, coffee-milk, cappuccino, and tea). Once the investment project is completed, the unit should produce around 800 million pods per year.

## 3 Corações Group also takes advantage of the capsule fever

The 3 Corações Group was formed as the result of a joint venture between São Miguel Holding and Strauss, back in 2005. In 2017, the company expected an increase in capsule volume sales of around 10%, however recent data released by the group show a rise of 34%. In the same year, the sales forecast for its own capsule machine (known as 'TRES') was 200,000 units, but sales exceeded expectations and 280,000 machines were sold. These results occurred while the Brazilian economy was still recovering from the worst recession in recent times (2014-2016).

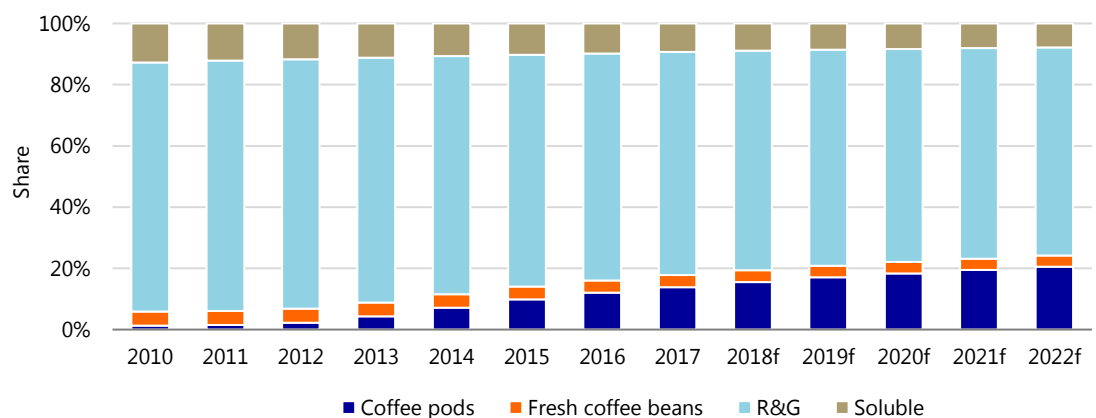
As a result of the rapid increase in demand, the 3 Corações Group is working on a new production line at its plant in Montes Claros, which will cost BRL 20 million. This investment will allow the plant to double its capsule production to 20 million capsules per month, from June 2018 onwards.

## Everybody wants to ride this trend

The high value per kilogram of capsules compared to standard roasted and ground coffee becomes very attractive. After all, even with a small volume it is possible to generate a reasonable revenue (see Figure 3).

As a result, the increasing consumption of capsules is not just attracting the attention of the biggest players in the market. Important roasters and coffee producers in Brazil, such as Café Orfeu and Octávio Café, are also investing to take advantage of this trend.

Figure 3: Share by value of main coffee formats in Brazil, 2010-2022



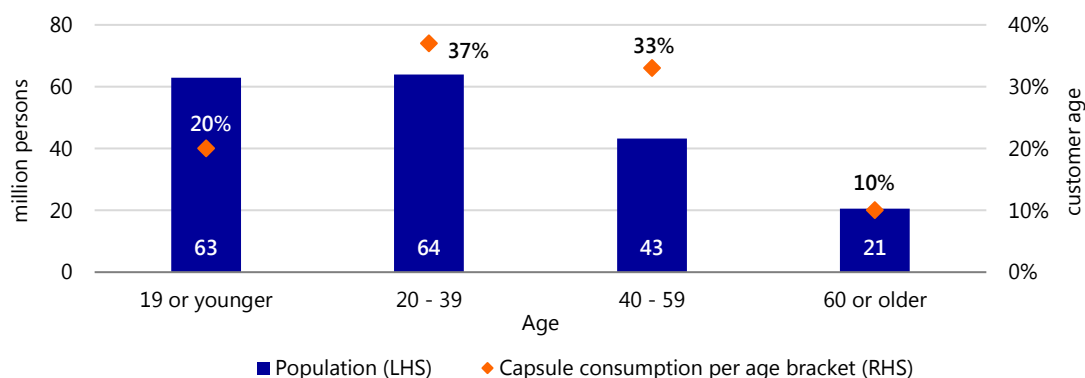
Source: Euromonitor, Rabobank 2018

## A promising future

Practicality and affordable prices have made coffee pods very attractive to the consumer. In addition, they can also offer quality coffee, which mainstream consumers are gradually learning to recognise and appreciate.

Analysing the Brazilian population and the profile of coffee pod drinkers it is possible to foresee a good scenario for capsules. About 57% of consumers of coffee pods are under 40 and according to the latest IBGE survey, 49% of the Brazilian population are in this age group (see Figure 4). In other words, the young profile of capsule consumers fits well with the demographics of Brazil.

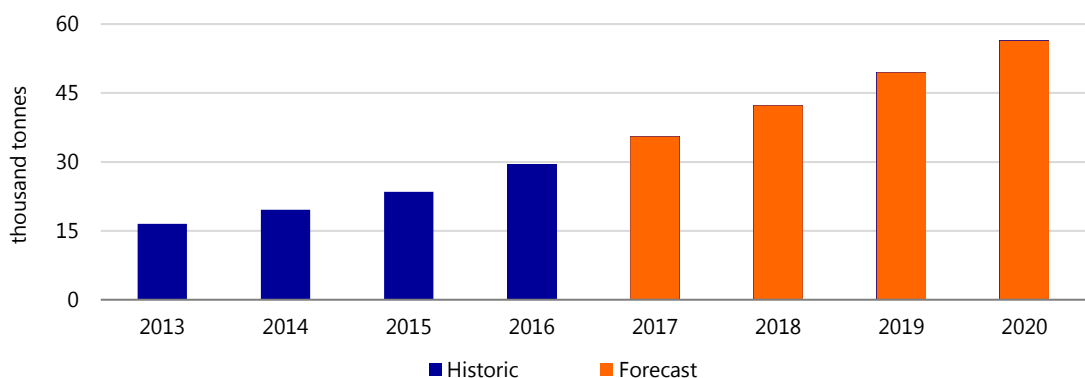
Figure 4: Coffee pods customer profile and Brazilian population by age



Source: IBGE, Supermercado Moderno 2017, Rabobank 2018

Furthermore, the steady consumption increase of premium coffee (see Figure 5) also has a positive impact on the demand for pods. A considerable part of coffee used in pods is premium. Actually, the capsules represent around 10% of total premium volume and have become the main format sold in retail outlets.

Figure 5: Premium coffee consumption in Brazil, 2013-2020f



Source: Euromonitor, Rabobank 2018

In the short/medium term, capsules are expected to generate the highest growth rate in the Brazilian hot drinks category, prompting many large companies to continue investing in this space.

The expected improvements in the Brazilian economy in the coming years also contribute positively to the trend of greater penetration of capsule machines sales, and therefore capsule consumption growth.

<sup>1</sup> <http://www.valor.com.br/empresas/5367607/nestle-dobra-capacidade-de-fabrica-em-montes-claros>

<sup>2</sup> <http://www.valor.com.br/agro/5395477/faturamento-da-3coracoes-cresceu-20-em-2017>

# Imprint

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