Analysis of Tea in the Foodservice Industry

Presented to:

The Tea Association of the USA, Inc.

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By:

Technomic, Inc.

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Introduction

Background

Technomic has been retained by the Tea Association of the USA to prepare this white paper on the category dynamics, trends and outlook of tea products in the foodservice channel.

Objectives

This report includes foodservice information on the following:

- Total volume of tea sold in foodservice (both pounds and consumer dollars).
- Historic and projected growth
- Consumer attitudes/practices relative to tea
- Operator attitudes/practices relative to tea
- Key implications to the Tea Association

Segment Scope

The following table lists the operator segments and relevant sub-segments that were included in the scope of the engagement, relating to volumetrics.

Segment	Sub-segments/Examples	Segment	Sub-segments/Examples
Traditional Limited Service Restaurants (LSR)	▪ Burger ▪ Chicken ▪ Pizza ▪ Ice cream/yogurt ▪ Mexican ▪ Sandwich	Business & Industry (B&I)	▪ Plant/office dining ▪ Excludes any vending
LSR Coffee Café	▪ E.g., Starbucks, Caribou Coffee, Tully's	Education	▪ College/University ▪ K-12 Schools ▪ Excludes any vending
LSR Specialty	▪ Smoothie, other specialty beverage shops ▪ Donut shops	Healthcare	▪ Hospitals ▪ Nursing homes ▪ Continuous care retirement centers ▪ Excludes any vending
Full Service Restaurants (FSR)	▪ Midscale ▪ Casual dining ▪ Fine dining	Other	▪ Supermarket foodservice ▪ Retailers ▪ Military ▪ Miscellaneous facilities

Travel & Leisure	▪ Recreation ▪ Lodging ▪ Airlines		

Methodologies

Technomic used a number of methods to collect its data. All major players in the channel were incorporated, which include consumers, operators, distributors and manufacturers. The specifics of the sample are listed in the table.

Research Target and Type	Number of Completes	Description
Consumer Focus Groups	51	▪ Chicago, Boston and Orange County, CA ▪ Three groups of 4-5 for 45 minutes ▪ Minimum household income of $30k ▪ Represented proportionally by gender and race
Operator Focus Groups	51	▪ 51 participants (Chicago, Boston, Orange County CA) ▪ Three groups of 4-6 for 45 minutes ▪ Must have beverage purchasing authority to qualify ▪ Annual purchases exceeded $250,000. ▪ "Appropriate" representation of all segments
Structured Internet Consumer Survey	1,562	▪ Consumers must have ordered a beverage AFH at least six times in the last eight weeks. ▪ Demographics: – *Gender*: 46% male, 54% male – *Race*: 73% White/Caucasian, 11% Black, 9% Hispanic, 4% other, 3% declined to answer – *Region*: 21% East, 23% Midwest, 20% West, 35% South
Structured Internet Operator Survey	498	▪ Sample represented both restaurant and beyond restaurant segments. ▪ 102 Traditional LSR, 35 LSR Coffee Cafe, and Specialty, 119 FSR, 65 Hospitals, 58 Schools, 46 Colleges, 30 B&I, 43 Recreation
Qualitative Operator Interviews	100	▪ Focused on major chains and high volume independents. Both in-person and phone interviews were conducted
Qualitative Channel Interviews	50	▪ Included interviews with distributors, DSD suppliers, and manufacturers of targeted beverages
Total	**2,210**	

Category Growth and Dynamics

Tea Defined

The term "tea" will be used extensively throughout this report and it therefore becomes important to understand how it is defined for purposes of this White Paper. Tea will include hot and cold teas, as well as various formats common to foodservice. The table outlines the scope and definitions of each of these products.

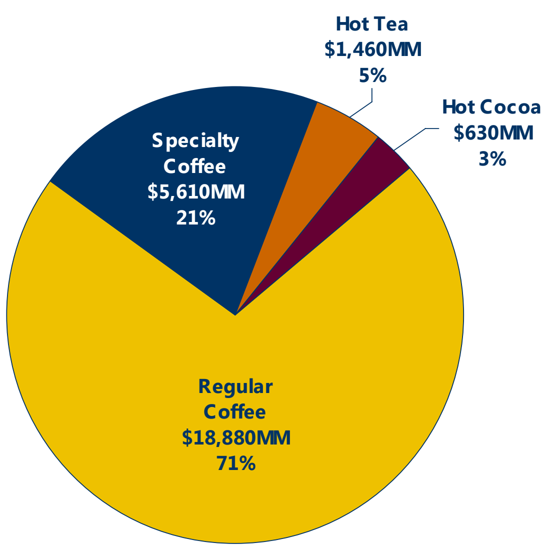
Category	Tea Definitions
Hot Tea	▪ Brewed hot tea, including bulk, single-serve bag, instant soluble and liquid concentrate.
Dispensed/Brewed Iced Tea	▪ Includes brewed and dispensed/fountain iced or cold tea.
Packaged Iced Tea	▪ Includes both single serve and bulk in bottles, cans, cartons, etc.

Overall Beverage Category Snapshot

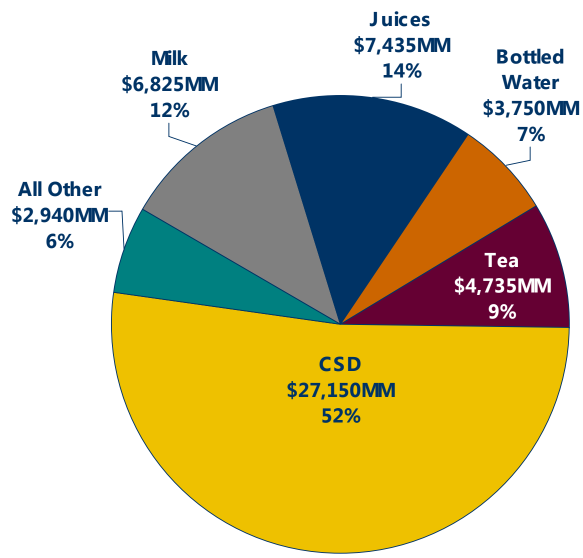
In total, consumers spent over $26 billion on hot beverages in the foodservice channel in 2004. Regular coffee dominates hot beverage foodservice operator sales, its $18.8 billion representing more than 71% of the total volume. Specialty coffees sales of $5.6 billion account for the second largest share of hot beverages at 21%. The remaining 8% of the category is made up of hot tea ($1.5 billion) and hot cocoa ($630 million).

In contrast, consumers spent over $52 billion on cold beverages in foodservice. Carbonated soft drinks (CSDs) accounted for over half, with milk and juice according for 12% and 14%, respectively. Iced tea represented 9% of total consumer dollars spent on cold beverages.

Foodservice Hot Beverage Market (RSE)*
2004 Total = $26.6MM



Foodservice Cold Beverage Market (RSE)
2004 = $52.4B



**Retail Sales Equivalent*
Source: Technomic, Inc.

When compared with all hot and cold beverages in foodservice, tea (both hot and cold) accounts for 8% or nearly $6.2 billion of the $79 billion foodservice beverage category in 2004 terms.

As noted, the amount of consumer dollars spent on tea in the foodservice channel is approximately $6.2 billion. Dispensed cold iced tea has the largest share of the total category, representing 61%, or more than $3.7 billion in consumer purchases annually.

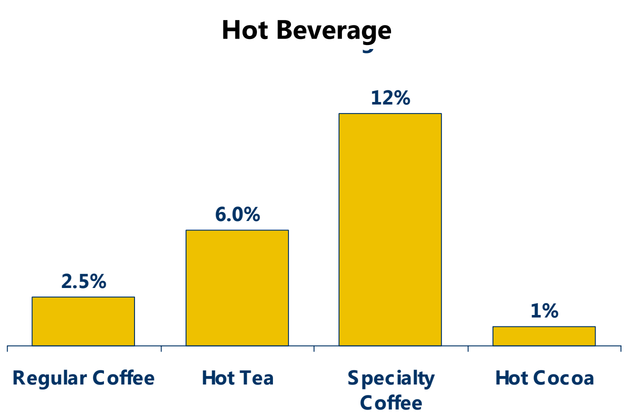
Over the past three years, the highest growth in consumer expenditures has been among the iced teas (both single serve and dispensed.) Hot tea has grown only slightly less over that same time frame.

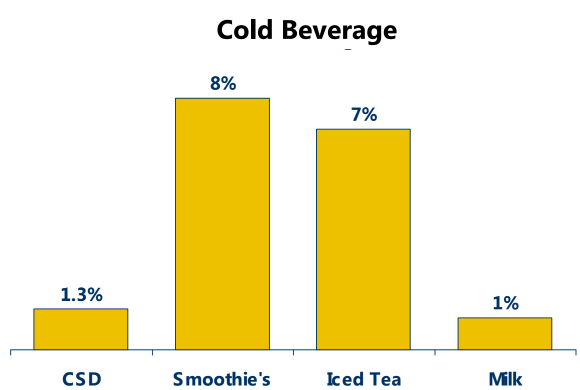
Category	Category Size (RSE - $MM)	Dollar Share	Gallons (Millions)	2001-2004 Growth	2005-2008 Growth*
Hot Tea	$1,460	24%	320	4.0%	6.0%
Dispensed/Brewed Iced Tea	3,780	61	1,200	5.0	7.0
Packaged/Cold/Iced Tea	955	15	750	5.0	6.0
Total Tea Market	**$6,195**	**100%**	**2,467**	**4.8%**	**6.6%**

**Nominal compound annual growth rate*

Going forward, Technomic expects tea growth to accelerate somewhat. Through 2008, growth of both hot and cold tea should average 6-7% per year (in sales dollars, not volume). This compares very favorably with many other beverage types, as shown in the chart below.

Projected Annual Nominal Growth
2005-2008





Many of the factors impacting growth will be discussed in the next several sections, but key trends in each category include the following:

Category	Key Trends/Drivers of Growth
Hot Tea	▪ Emerging as a specialty hot beverage, with numerous varieties being offered by operators. Cha and green teas are particularly popular. ▪ Hot tea growth being strengthened by perceived health benefits – lowering blood pressure, reducing cancer risk, increasing metabolism.

Dispensed/Brewed Iced Tea	▪ Often only one head dedicated to iced tea product; limited in number of varieties that can be offered at an operation due to limited number of dispensers. ▪ Often an acceptable consumer alternative to carbonated soft drinks ▪ Highly profitable to the operator.
Packaged/Cold/Iced Tea	▪ Higher-end, boutique brands thriving (i.e. SoBe, Snapple, China Mist, Arizona, etc.) ▪ Flavor and variety proliferation

Overall Tea Sales by Operator Type

Technomic defines the foodservice channel to include both restaurants (both full service and limited service) and "beyond restaurant" segments such as business & industry, recreation, education, healthcare and other segments where foodservice is not the primary focus of the host site. In terms of tea consumption and sales, tea is heavily concentrated in the restaurant channel. Approximately 69% of consumer dollars spent on tea come from the restaurants segments. Full-service restaurants (FSRs) account for 51% and limited service (LSR) for 18% of this total. While the share of limited-service usage is much lower than full service restaurants, sales still total over $1.1 billion. at 18%, it is still a significant share for overall foodservice usage.

The beyond restaurant (BR) channel represents 31% of tea sales in the industry, with travel and leisure (which includes hotels) representing about half of this channel's usage at 15% of total tea sales. The remaining usage is dispersed relatively evenly across the beyond restaurant channel.

Segment	Tea*	
	$MM (Sales)	% Share
Restaurants		
LSR	1,120	18%
FSR	3,140	51
Total Restaurants	*4,260*	*69*
Beyond Restaurants		
Travel and Leisure	950	15
Business and Industry	350	6
Education	325	5
Healthcare	225	4
Other	85	1
Total Beyond Restaurants	*1,935*	*31*
Total	**$6,195**	**100%**

**Includes hot tea, dispensed iced tea and packaged iced tea*

Segmentation by Tea Types

The table below separates the three major categories of tea to highlight segment-usage differences. Both hot tea and dispensed iced tea are highly concentrated in the restaurant segments – particularly in FSRs. In the dispensed iced tea category, 78% of sales come from restaurants, with full-service restaurants accounting for 63% of the total usage compared to 15% of LSRs.

Packaged ice teas, however, shift more toward the beyond restaurant channel. Approximately 66% of packaged/single serve tea is found in various BR segments, compared to only 34% of sales in restaurants. The grab-and-go nature of these beverages, along with the concession and

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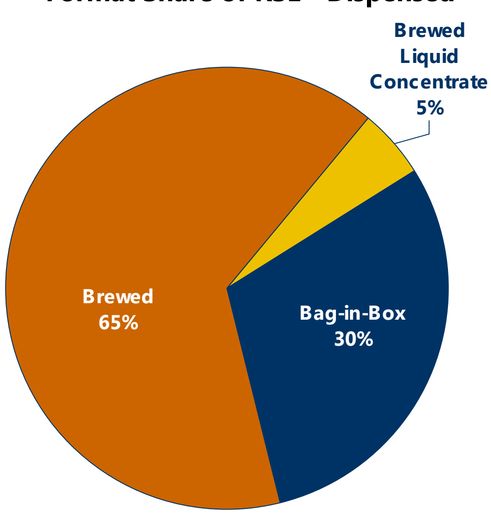
cafeteria style of BRs account for this large gap in sales relative to restaurants. It does also indicate several opportunities for further penetration in both restaurants and beyond restaurants based upon different product formats.

Segment	Hot Tea		Dispensed/Brewed Iced Tea		Packaged Iced Tea	
	$MM	% share	$MM	% share	$MM	% share
Restaurants						
LSR	$380	26%	$555	15%	$185	$19
FSR	600	41	2,400	63	140	15
Total Restaurants	*980*	*67*	*2,955*	*78*	*325*	*34*
Beyond Restaurants						
Travel and Leisure	250	17	400	11	300	31
Business and Industry	50	3	150	4	150	16
Education	50	3	200	5	75	8
Healthcare	100	7	50	1	75	8
Other	30	2	25	1	30	3
Total Beyond Restaurants	*480*	*33*	*825*	*22*	*630*	*66*
Total	**$1,460**	**100%**	**$3,780**	**100%**	**$955**	**100%**

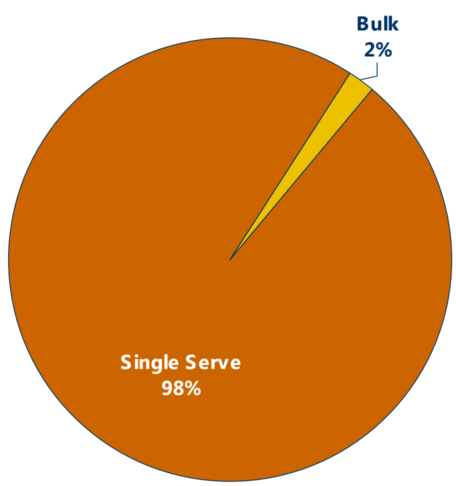
Format/Shares of RSE

From a format share perspective, hot tea is almost exclusively purchased/used in foodservice in small, individual bags. There are differences between dispensed and packaged formats, however. Dispensed tea is the most common format, accounting for 65% of RSE. Bag-in-box accounts for a third of RSE share, and liquid concentrate usage is minimal. Single serve is the most common format for packaged iced tea at 98%.

Format Share of RSE - Dispensed



Format Share of RSE - Packaged



Consumer Attitudes and Practices

Foodservice consumers are more likely to purchase tea products as part of a meal, instead of purchasing it separately, which is typical with all beverages. The coffee/café LSR sub-segment departs from this trend, as more consumers tend to purchase hot tea and packaged ice tea without a meal.

From an overall foodservice view, which includes restaurants and beyond restaurants, dispensed iced tea, on average, is ordered the most frequently by consumers. Packaged iced teas are purchased more frequently in the beyond restaurant segment, with a meal, than in the restaurant segment.

Consumer Purchasing Frequency
% Consumers Purchasing Tea in Foodservice in the Last Two Months

Segment	Hot Tea		Dispensed /Brewed Iced Tea		Packaged Iced Tea	
	With Meal	Beverage Only	With Meal	Beverage Only	With Meal	Beverage Only
LSR Traditional	3	1	21	4	2	0
Quick Casual	12	1	33	2	5	1
Coffee Café	4	8	3	5	2	3
Specialty LSR	5	5	3	1	3	3
FSR	13	1	41	1	2	0
B&I	9	4	13	4	13	8
Education	12	4	21	3	15	3
Hospitals	7	5	13	3	8	6

Consumer Tea Purchasing Trends/Consumption

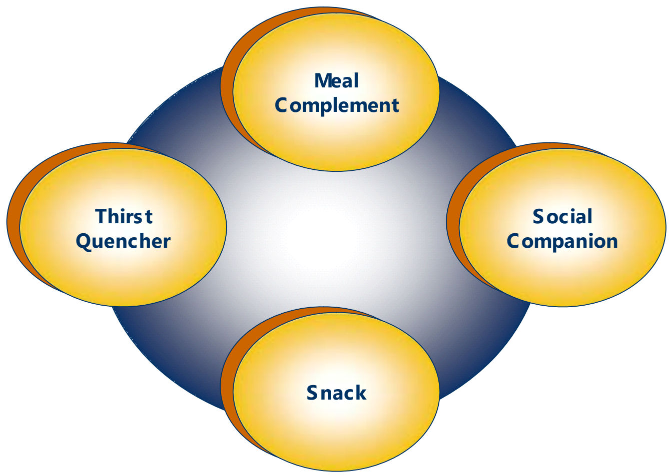
Consumers were asked if they are consuming "more," "less" or "about the same amount" of tea compared to two years ago. Data suggests that consumers believe they are actually drinking about the same amount as in the past. Using Technomic's "net" analysis, consumers believe that their consumption of hot tea is down and iced tea is up.

Beverage	Have Purchased in Last 2 Years	More	Less	"Net"
Hot Tea	47	16	33	-17

Iced Tea	71	24	20	+4

Beverage Applications

From its landmark Beverage study, Technomic identified four individual consumer beverage purchase "applications" for tea and other beverages in foodservice. While these applications are not mutually exclusive, it provides a framework upon which penetration strategies can be based.



In terms of tea, consumers tend to view it as a good choice as a meal complement, with iced tea being the number one beverage most associated with being a meal complement. Hot tea is also seen as a meal complement, although not to the same extent as iced tea.

Iced tea is also rated fairly highly as a thirst quencher, with 36% of consumers naming it as one of the top three best beverages to fit this description. Areas where tea (both iced and hot) does not fare as well include as a social companion and as a "treat."

Statement	Application	Iced Tea	Hot Tea	Top Choice	
"Goes well with food"	Meal Complement	38%	10%	Iced Tea	38%
"Is fun to drink"	Social Companion	14	3	Regular CSD	(28%)
"Is a special treat"	Snack	4	4	Hot Specialty Coffee	(44%)
"Most thirst quenching"	Thirst Quencher	36	2	Bottled Water	(59%)

Consumer Beverage Purchasing Factor Importance

From an all-beverage perspective, consumers select beverages primarily based upon their preference or "taste" for a particular beverage at the time of purchase. In the consumer survey, price, in most cases was the second most important reason for choosing a beverage. In the traditional and quick casual LSR sub-segments, free refills and bundling show increasing levels of importance.

Factor	Traditional LSR	Quick Casual	Coffee Café	Donut Snack	FSR	B&I	School/ College	Hospital
▪ Have a taste for a particular beverage	54%	62%	81%	70%	65%	58%%	56	59%
▪ Price	28	25	41	38	24	38	31	35
▪ Beverage is bundled/ included with a meal	33	14	4	10	6	15	14	13
▪ Beverage goes well with food being eaten	23	32	14	28	39	21	32	22
▪ Free refills are provided	18	26	5	7	31	13	18	20
▪ Brand name of beverage	15	16	9	8	15	21	13	20
▪ Portability/transportation of beverage	12	5	21	22	1	13	11	20
▪ Health benefits of beverage	8	13	5	7	11	13	18	9
▪ Large sizes are available	6	4	5	5	3	7	5	9
▪ Beverage looks new or interesting	1	4	13	4	3	1	0	1
▪ Beverage is being promoted	<1	1	4	2	0	0	1	1

Beverage Daypart Associations

Tea products have a relatively high association with all dayparts. The table below shows the percentage of consumers who associate tea products with the daypart choices in the survey. Iced tea, at 39%, was the top associated beverage for dinner, and the second top consumer association for lunch (38%). While associations do not necessarily follow purchasing behaviors, the findings are still positive for tea products

What Beverages Do You Associate with the Following?
(% Associating)

Daypart Choice	Hot Tea	Iced Tea	Top Three Associations	
Breakfast	19%	4%	Regular Hot Coffee	60%
			Fruit Juice	42%
			Hot Tea	***19%***
Lunch	7	38	Regular CSD	40%
			Iced Tea	***38%***
			Diet CSD	32%
Dinner	14	39	***Iced Tea***	***39%***
			Regular CSD	35%
			Regular Hot Coffee	34%

All Dayparts	20	20	Regular Hot Coffee White Milk Bottled Water	42% 39% 38%

Beverage Venue Associations

From a venue perspective, consumers associate iced tea with a sit-down meal, which is second only to regular hot coffee. A fifth of consumers associate hot tea with a sit-down meal. And about a quarter of consumers associate hot and iced tea with company and school cafeterias.

Which Beverages Do You Associate with the Following Venues?
(% Associating)

"Best For…"	Hot Tea	Iced Tea	Top Three Associations	
Drive-Thru	1%	20%	Regular CSD	61%
			Diet CSD	47%
			Regular Hot Coffee	21%
Sit-Down Meal	20	37	Regular Hot Coffee	48%
			Iced Tea	***37%***
			Regular CSD	28%
Company or School Cafeteria	26	25	White Milk	35%
			Regular Hot Coffee	34%
			Regular CSD	30%

Consumer Health Associations Regarding Beverages

While tea products are not necessarily associated as among the top three healthiest beverages, they are also not perceived as unhealthy. It is encouraging to learn that 13% of consumers report they should be drinking more iced tea, particularly when more than half of consumers report they should be drinking less regular carbonated soft drinks.

In focus groups, consumers generally perceived iced tea as a healthy option to other beverage choices, along with water, milk and fruit juice. Opportunities exist to build awareness around the viability of iced tea as a "healthier" option to carbonated soft drinks, and a substitute for bottled water. And with regard to hot tea, opportunities exist to position it as a replacement for regular hot coffee, considering that 26% of consumers believe they should be drinking less coffee.

Which Beverages Do You Associate with the Following?
(% Associating)

Statement	Hot Tea	Iced Tea	Top Three Associations	
"Healthy"	14%	1%	Vegetable Juice	56%
			White Milk	46%
			Fruit Juice	42%
"I should be drinking more of this."	9	13	Bottled Water	58%
			White Milk	29%

			Fruit Juice	30%
"I should be drinking less of this."	2	2	Regular CSD	54%
			Diet CSD	29%
			Regular Hot Coffee	26%

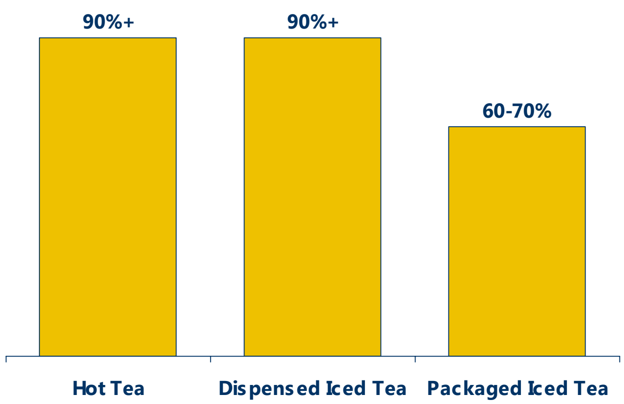
Operator Attitudes and Practices

This section outlines the findings from in-depth interviews conducted with operators from each of the segments included in the scope of the study.

Tea Gross Margins

Gross margins for tea beverages are high for operators. Hot tea and dispensed iced tea can reach gross profits in excess of 85%. Packaged iced tea gross margins are closer to 60-70%.

Operator Gross Margin Range
Tea Products



Tea Products Penetration

Among all tea products, hot tea is offered by the highest share of operators, with the exception of dispensed iced tea, which is offered by slightly more operators in the limited-service segment. A total of 67% of all operators indicated they offer hot tea, 54% offer dispensed iced tea and 33% offer packaged ice tea. The heaviest-penetrated segments are FSRs for hot tea (85%) and dispensed ice tea (59%). Thirty-six percent (36%) of beyond restaurant operators offer packaged ice tea, the highest penetration of the product relative to the segments shown in the table.

% Operators Offering

Beverage	Total	All LSR	FSR	Beyond Restaurants*
Hot Tea	67%	46%	85%	70%
Dispensed Iced Tea	54	54	59	51

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Packaged Iced Tea	33	28	30	36

**Recreation, B&I, Education, Hospitals*

Variety of Tea Products Offered

When offered, operators provide the greatest varieties of hot tea. From an all-segment perspective, operators, on average, offer 3.2 varieties/flavors of hot tea, 2 of packaged iced tea and 1.5 of dispensed iced tea. The most varieties of any tea product is offered in Beyond restaurants, where typically 3.9 types of hot tea are purchased/sold by operators.

Average Number of Varieties/Flavors Offered

Beverage	Total	All LSR	FSR	Beyond Restaurants*
Hot Tea	3.2	1.4	2.7	3.9
Dispensed Iced Tea	1.5	1.0	1.0	1.0
Packaged Iced Tea	2.0	2.5	1.0	2.0

**Recreation, B&I, Education, Hospitals*

Sizes of Dispensed/Poured Tea Products

There are some notable differences between the most common sizes of hot and cold dispensed tea beverages. Operators typically sell the 8 ounce cup for hot tea and the 16 ounce cup for cold tea. The second most common size sold is 12 ounces for both products. The third most common sizes tend to become smaller for hot tea (less than 8 ounces) and larger for dispensed iced tea (20 ounces).

% Operators Offering Size

Beverage	Most Common Size	Second Common Size	Third Common Size
Hot Tea	8 oz.	12 oz.	<8 oz.
Dispensed Iced Tea	16 oz.	12 oz.	20 oz.

Tea Volume Status

As a whole, operators who carry tea products have reported that volume, for the most part, has held steady over the last two years. Technomic has analyzed each beverage based on net responses to whether volume has increased, decreased or stayed the same over the past two years. Overall, all tea beverage have experienced positive "nets."

Packaged iced tea has the greatest number of operators that have noted an increase, with 30% of operators reporting an increase. Dispensed iced tea has also seen volume increases, according to 28% of operators, while only 20% report an increase in hot tea volume. The largest "net" of operators (difference between those reporting an increase and a decrease) is highest in both iced tea categories.

% Operators Indicating Beverage Volume Has....

Tea Product	Increased	Decreased	"Net"
Hot Tea	20%	6%	+14%
Dispensed Iced Tea	28%	4%	+24%
Packaged Iced Tea	30%	7%	+23%

Base: Operators offering a specific beverage

Hot and Cold Beverage Selection Criteria

The table below shows the selection criteria for hot and cold beverages in general. This criteria has been further broken down into three tiers of importance: Critical, important and tertiary. The most critical selection criteria for beverages is that the product taste great. Other critical factors (according to more than 80% of operators) include the ability to sell the product at a reasonable price, appropriate foodservice packaging, high consumer demand and high profitability potential.

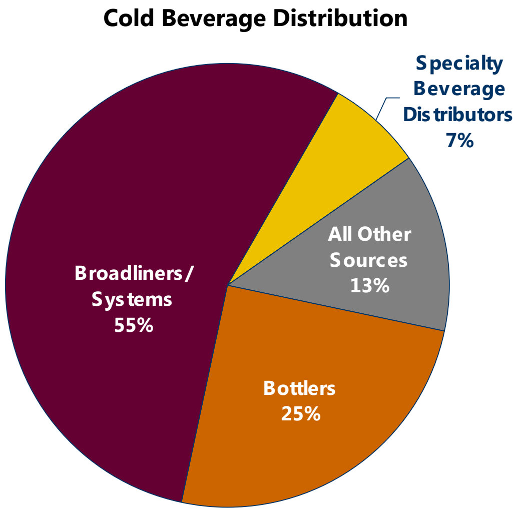
Selection Criteria		Top 2 Box	Comments
Critical	Is Great Tasting	93%	▪ "The products have to taste good for it to sell – that's obvious."
	Can Be Sold at a Reasonable Price	85	▪ "Otherwise you set the price too high and they are too expensive."
	Has Appropriate Packaging	85	▪ "Beverages need to stay hot or cold and be transportable."
	Has High Patron Demand	84	▪ "If customers don't ask for it, we just replace it with something else."
	Offer High Profit Margins	82	▪ "We're always looking for products that are low maintenance but are very profitable."
Important	Has a Strong Consumer Brand Name	78	▪ "You can charge a higher price if customers know the brand."
	Company Offers Strong Manufacturer Support	77	▪ "Not just promotional programs, but placement ideas."
	Company Offers Strong, Reasonable Equipment Programs.	77	▪ "If we have a broken fountain system, we want it fixed fast and the first time."
	Offered in a Variety of Flavors	75	▪ "You want to offer a variety of products to customers. Otherwise, they may not come back."
Tertiary	Is Rated Healthy by Consumers	61	▪ "Consumers will pay a premium if they think it is good for them."
	Meets Consumer Nutritional Requirements	61	▪ "With the obesity issue hovering, it's important that we offer healthy options."

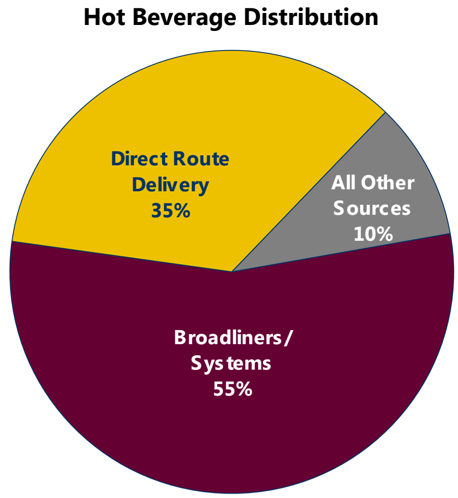
	Contains Vitamins and Minerals	52	▪ "Enhanced smoothies with vitamins added allow us to differentiate our products. We can also charge higher prices."
	Is "Trendy"	51	▪ "Red Bull is popular with 20-somethings. It's on-trend."

Beverage Distribution

With cold beverages, broadliners and systems distributors play a large role in distribution, with over half of volume going through this channel. Likewise, approximately 55% of all hot beverage volume in foodservice is sourced through broadline and systems distributors. However, secondary distribution channels for hot and cold beverages begin to diverge from there. Direct-store delivery represents more than a third of all volume for hot beverages, while bottlers represent a quarter of all cold beverage volume.

Beverage Sourcing





Single Sourcing of Beverages

Using multiple sources adds significant complexity to an operator's business. More than half of all operators are looking for ways to reduce purchasing complexity. Fifty five percent (55%) indicate they would prefer to purchase all beverages from a single source.

"We'd like to be able to purchase all beverages from a single source"

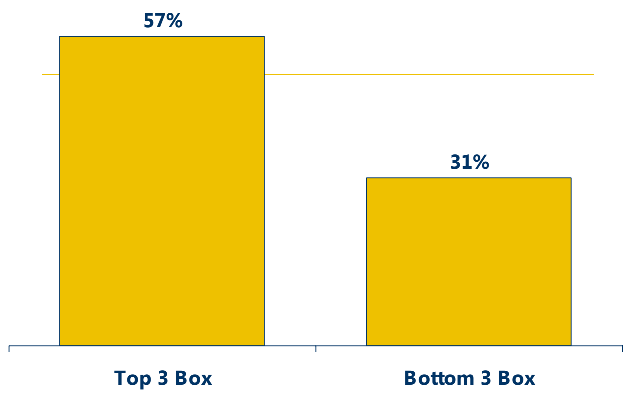
	Top 3 Box	Bottom 3 Box
Total	55%	33%
LSR	60	29
FSR	58	31
Beyond Restaurants	52	44

Base: Top 3 box of a 1 to 7 scale ranging from 1=do not agree at all to 7=completely agree

Healthy Option Perspective

Operators indicate that patrons are looking for healthier options in away-from-home occasions. Half of operators report their customers are looking for "better for you" beverage options. This is good news for tea products. Operators were asked in focus group sessions how they are addressing customer desires for "healthy" beverage options, and teas were mentioned as possibilities.

"Our Patrons Increasingly are Looking for "Better for You Beverage Options"



Operator Beverage Associations

Operators were asked to indicate which beverages they believed are associated with a number of statements to beverage offering criteria. All tea products have been included. In nearly all cases, dispensed CSDs were selected by more than 50% of operators. Coffee was generally selected by about a third of operators, but beyond coffee, association percentages tended to fall in the teens to the single digits.

Statement	Hot Tea	Packaged Iced Tea	Dispensed Iced Tea	Top 2 Choices	
Easiest to Sell	7%	4%	13%	Dispensed CSD Regular hot coffee	54% 32%
Most Profitable	9	5	5	Dispensed CSD Regular hot coffee	58 31
Most Demanded by Consumers	6	3	13	Dispensed CSD Regular hot coffee	55 32
Highest Sales	6	4	4	Dispensed CSD Regular hot coffee	58 32
Best Promotional Programs	4	2	5	Dispensed CSD Regular hot coffee	37 16
Trendiest Beverage Today	6	4	8	Dispensed CSD Regular hot coffee	22 18

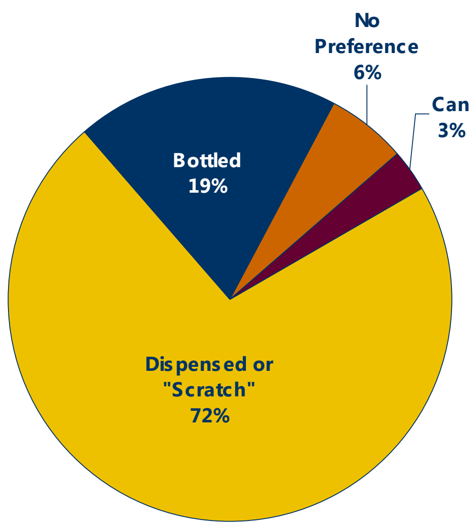
Biggest Headaches to Manage	6	2	4	Dispensed CSD Regular hot coffee	16 13
Most Difficult Programs to Manage	7	1	4	Dispensed CSD Regular hot coffee	10 11
Best Manufacturer	5	5	2	Dispensed CSD Regular hot coffee	46 25

**Percent indicating each beverage was in top 3 choices*

Preferred Iced Tea Format

Operators prefer dispensed or "scratch" more than three to one over bottled iced tea. Canned iced tea is preferred by only 3% of operators, and 6% have no preference. The high preference for dispensed iced tea is the perceived higher profitability of this format over packaged.

Preferred Beverage Format – Iced Tea



Conclusions and Implications

Key Findings	Implications
▪ Tea products in this study represent almost $6.2 billion in consumer dollars spent away from home.	▪ Conditions favor the overall growth in tea, but additional work will be necessary from a marketing and new product development perspective.
▪ Dispensed/brewed iced tea is the major tea beverage consumed in foodservice, and it is also expected to grow at the most accelerated rate. ▪ Iced tea is the most frequently purchased tea product by consumers, and consumers have reported they are consuming more of this beverage.	▪ The outlook is positive for brewed iced tea. Developing marketing campaigns touting its major benefits will only enhance its usage. ▪ Dispensed tea will be somewhat harder to grow, given the operational limitations at many operators (number of heads on the soft drink fountain, etc.)
▪ Hot tea is expected to grow above the beverage category as a whole. However, there are still a large number of consumers and operators that are reporting tea usage.	▪ There is a tremendous opportunity to grow the category by increasing penetration among the operator community.
▪ Consumers associate beverage purchases with various applications and occasions, such as "snacking," "meal complement," " meal replacement," etc.	▪ Understanding where tea can take advantage of its applications can provide incremental growth opportunities.
▪ A total of 14% of consumers associate hot tea with "healthy," and 13% indicate they should be drinking more iced tea.	▪ Marketing efforts should tout the health benefits of tea. ▪ Coffee appears vulnerable, given the large number of consumers that believe that "they should be drinking less."
▪ Operator gross margins for tea are the highest for hot tea and dispensed ice tea, both at or above 85%. Packaged iced tea margins are approximately 60-70%.	▪ Tea products are highly profitable to operators. This factor should be incorporated into every marketing and sales story to foodservice operators.
▪ Operators offer the most varieties of hot tea at 3.2, and iced tea varieties number from 1.5 to 2.	▪ There may be opportunity for additional tea varieties and product innovation. ▪ Space constraints may limit the number of new varieties taken on by operators in some instances, but there appears room for some increase.
▪ Operators use multiple sources for beverages, however, there is a desire to rationalize suppliers.	▪ Broadline distributors will become more involved in beverage distribution as operators demand more products be purchased from their primary source.
▪ Operators are realizing the increasing role placed on health and nutrition by consumers. Technomic believes that health and wellness will be a driving force going forward in the foodservice industry.	▪ Tea is viewed by many as a "healthy" alternative to other hot beverages, especially coffee. ▪ More focus on this theme, including nutritional

	benefits of tea products, should be communicated.