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Toronto firm set to shake up K-Cup coffee wars with first compostable pods

Eric Atkins, The Globe and Mail
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The red-hot market for single-serve coffee is about to get even hotter.

Since the 2012 expiration of patents held by market leader Keurig Green Mountain Inc., competition in the so-called K-Cup market has been fierce, with Starbucks, Tassimo and a host of other private labels vying for the money of consumers who like the convenience and consistency of brewing their coffee at home with the push of a button.

However, that popularity has come with a heavy environmental footprint, generating a landfill-clogging 10 billion plastic cups each year.

But a Toronto company is poised to open a new front in the coffee wars, offering the first coffee pods that can go straight from the machine to the homeowner's green bin.

Club Coffee, which makes coffee for a long list of North American brands, cafés and stores, plans to begin selling 100-per-cent compostable single-serve coffee and tea later this year.

The move would give the privately held company a jump on its rivals, none of which sell pods that fully break down in a city's composting system. Vermont-based Keurig Green Mountain, whose brand is the market leader, says its fully compostable K-Cups won't hit shelves for six years. Until then, coffee lovers must toss the cups into the trash or undertake the messy task of separating the used coffee grounds, plastic cup, filter and tin foil lid for the recycling and compost boxes, assuming their city permits it.

"Consumers can simply throw the entire pod into the green bin and know that it will break down in the municipal composting system and be converted back into compost and likely used in agriculture, hence closing the loop," said Claudio Gemmiti, senior vice-president of innovation at Club Coffee, a privately owned company that employs 220 people and imports, roasts and packages coffee at two plants in northwest Toronto.

The company has spent \$50-million in the past two years on a new 85,000 square-foot factory to make single-serve coffee cups, a market that consultant Mintel Group Ltd. says tripled in size between 2011 and 2013.

"This is about high-tech manufacturing now," said John Pigott, chief executive officer of Club Coffee.

Spending on technology and a skilled work force has helped Club Coffee avoid the fate of a long and growing list of Ontario food makers that became unable to compete and closed, Mr. Pigott said in an interview at the company's plant. The list includes Kellogg's in London, H.J. Heinz in Leamington and Bick's in Dunnville.

Another key to the company's success, Mr. Pigott said, was learning how to export to the United States, a \$12-billion (U.S.) coffee market that dwarfs that of Canada. Club Coffee now gets 40 per cent of its sales in the U.S., and makes coffee for several well-known partners there, including Chock Full o'Nuts in New York, Hills Brothers in Chicago and Boyd's Coffee in Portland.

"Innovation is not about products. It's about processes. It's being prepared to change," Mr. Pigott said.

A lot has changed in the coffee business since Club Coffee was bought from Nestlé Canada Inc. in 2007 by Morrison Lamothe, a frozen food company co-founded by Mr. Pigott's grandfather, Cecil Morrison, in 1933.

Starbucks and Second Cup helped change consumers' tastes and budgets for coffee, making high-quality and expensive brews the norm. Consumers began wanting better coffee at home, they wanted it fresh, and they wanted to be able to make it taste the same every time. In 2013, one-third of U.S. homes had a single serve machine, consultant group Mintel said.

"Once you've had good coffee, you don't want to go back to bad coffee," Mr. Pigott said.

The single-serve coffee market has quickly become a \$3-billion-plus business, accounting for 40 per cent of Americans' coffee budgets, up from 4 per cent in 2009.

K-cups are loved for their consistency and convenience, but loathed for the waste they generate.

Municipalities across Canada handle the coffee pods differently, if at all. Calgary residents are told to toss the package

into the garbage, while Vancouver coffee drinkers can recycle the plastic cups but not the tin foil lids. In Halifax, residents can compost the coffee grounds, recycle the foil lids and plastic cups, but not the plastic liner that is found inside.

“They have to take it apart. Unfortunately, we don’t have any control over what the companies use to make these, and what ends up on the shelves,” said Sarah Reeves, a spokeswoman for the City of Halifax.

Keurig says on its website, “Currently, our K-Cup packs are not recyclable for a couple of reasons, which we are working to overcome.”

Club Coffee’s compostable pods look similar to the Keurig-compatible models it has sold for two years. But the filter, ring and lid are made from plant-based resin that will break down over several weeks in the compost process. The ring, developed with the University of Guelph, is flecked with the brown coffee chaff the company collects from the 40 million pounds of beans it roasts each year.

The university owns the patent on the ring, while Club Coffee owns the patent for the entire pod.

Currently, the company is making the rounds of major municipalities to get the pods accepted in green bin programs.

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