

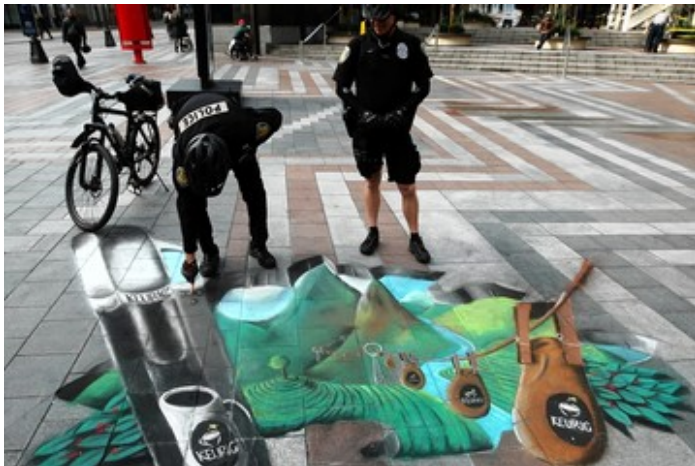
**THE WALL STREET JOURNAL.**

WSJ.com

November 28, 2012, 6:50 PM ET

# The K-Cup Patent Is Dead, Long Live The K-Cup

By Tom Gara



AP IMAGES FOR KEURIG INCORPORATE

[Green Mountain Coffee Roasters](#) managed to get tens of millions of Americans paying per cup for the coffee they brew in their own kitchens, and as long as its patents lasted, it was the only company that could sell the single-serve pods their Keurig coffee machines needed.

With [those patents expiring this September](#), a big part of that lucrative arrangement comes to an end. Other companies can now produce their own versions of the so-called K-cup, and advertise them as being compatible with Keurig machines. And at the same time [Starbucks](#) is now selling its own machine and pods, aiming to get its store customers to switch across in their homes as well.

(Starbucks sells branded K-cups in a partnership with Green Mountain, and Starbucks CEO [Howard Schultz](#) recently said his company's brands [accounted for 25% of the total K-cup market](#))

The threat of looming patent expiry and new competitors was a major factor in hedge fund manager [David Einhorn](#)'s argument that tough times were ahead for Green Mountain. He [made that argument back in October 2011](#), prompting a sell-off in Green Mountain stock.

Yesterday, Green Mountain reported its first quarterly results since those patents expired, [and they were very good ones](#): net profit up 22%, outlook for 2013 boosted, net sales up 33%.

In a conference call to discuss the results, CEO Larry Blanford said [reports of the K-cup's death have been greatly exaggerated](#):

---

*In this, our first conference call post patent expiration, I'm pleased to say that we've not seen any marketplace dynamics that have caused us to think differently about our outlook for single serve packs. We continue to believe that growth in sales of system-wide single serve packs will generally follow the growth in the installed base of brewers over time. That, of course, leads to the question of license versus unlicensed system participants.*

---

*Well, as expected, we've seen additional unlicensed brands and are manufacturers emerge post patent expiration. We've yet to see anything that changes our view of the likely impact on our broader opportunity. We continue to assume that the total of all unlicensed K-Cup packs will represent roughly 5% to 15% of the system starting at the lower end of the range in 2013 and potentially increasing towards the top end of the range as we look two to three years out.*

---

*While we believe we will see additional unlicensed single serve packs emerge, both brand named and store brand private label, we believe GMCR will continue to be the leader in single serve beverages for the K-Cup brewing platform for several reasons. First, the strength of our broad license brand offering combined with our ability to continue to expand consumer choice within the system.*

---

How will the company keep customers buying its own product as imitations flood the market? A few ways. To paraphrase:

- **Choices:** Green Mountain is selling 32 brands and 200 varieties, including co-branded products with everyone from Snapple and Starbucks to [Costco](#) . And the type of person who buys a Keurig machine is more likely to stick to brands and favourites.

- **Technology:** the company is producing cups at a scale and efficiency that competitors will need to work to meet. And it still holds many unexpired patents that, according to Mr Blanford "will continue to offer important protection against non-licensed single serve packs."

About ten per cent of all the coffee sold in groceries and supermarkets today is the store's own private-label product, Mr Blanford said, and the company thinks that is a "reasonable proxy" for how much of the K-Cup market similar private label offerings will be able to capture.

Copyright 2013 Dow Jones & Company, Inc. All Rights Reserved

This copy is for your personal, non-commercial use only. Distribution and use of this material are governed by our [Subscriber Agreement](#) and by copyright law. For non-personal use or to order multiple copies, please contact Dow Jones Reprints at 1-800-843-0008 or visit [www.djreprints.com](http://www.djreprints.com)