UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

KRAFT FOODS GLOBAL, INC., Plaintiff, -against- STARBUCKS CORPORATION, Defendant.	:	CASE NO. 10 CV 09085 (CS)

DECLARATION OF STEPHEN J. HOCH, Ph.D

I, Stephen J. Hoch, hereby depose and state as follows:

1. As mentioned in my prior submitted declaration, since 1995, I have held the position of Professor of Marketing at the Wharton School, University of Pennsylvania. I have reviewed Starbucks' Memorandum in Opposition to Kraft's Motion for Preliminary Injunction, as well as the declaration of Michele Waits and Larry Cronin. I submit this declaration in support of Kraft Foods Global, Inc.'s ("Kraft") Motion for Preliminary Injunction.

2. I have reviewed sales data relating to the coffee market and am familiar with such data based on my research and teaching.

3. Over the 12 years that Kraft has sold Starbucks products (Starbucks and Seattle's Best brands) in the CPG channel, sales rose from about $50 million in 1998 to over $500 million in 2010, a 10 fold increase which implies a 21% compound annual growth rate (CAGR). This performance indicates strong sustained growth of the Starbucks brand in the CPG channel and is the result of multiple factors including Starbucks strong brand equity and Kraft's continued marketing and sales efforts to increase distribution reach and in-store merchandising. Starbucks

was distributed in about 4,000 outlets in 1998 and now is distributed in about 40,000 outlets representing almost 90% of available outlets.

4. The total CPG coffee market is composed of several sub-categories that differ in terms of quality and price per equivalent cup. These include mainstream brands (e.g., Maxwell House, Folger's at about 5-8¢ per cup), entry-level premium brands (e.g., Dunkin' Donuts, Seattle's Best, Eight O'Clock at 10-16¢ per cup), super-premium brands (e.g., Starbucks, Peet's, Millstone at 18-22¢ per cup), and single-serve brands (e.g., Keurig, Tassimo at 50¢ per cup).[1] In addition, there is instant coffee. The chart below shows that the 5 year Compounded Annual Growth Rates (CAGRs) for the three outlet channels (Food, Drug, and Mass Merchandiser excluding Wal-Mart) differ by subcategory.

Sub-Category	**5 Year CAGR (2005-2010)**
Total Coffee	4.5%
Mainstream Brands	1.5%
Entry Level Premium Brands	13.7%
Super-Premium Brands	3.5%
Single-Serves	43.8%
Instant	0.4%

5. As can be seen, there are dramatic differences in five year growth rates. Single-serves have grown very rapidly, from a very low base, as more single serve coffee making machines have been purchased and consumers have learned to value the convenience and

1 Premium, as cited by Starbucks in their filings, is the combined total of both entry-level premium and super-premium shares

consistent quality of the pod delivery systems, despite its substantially higher price per cup. In addition, entry level premium brands have grown much faster than the market as a whole. This has been mainly due to the introduction at the end of 2007 of Dunkin' Donuts into the CPG channel, a strong brand in its own right with about 6400 outlets in the US and is priced at an entry-level premium price point in between mainstream and super-premium coffees. Dunkin' Donuts had zero retail distribution in 2006 but by 2010, it was distributed in 89% of available outlets.

6. In evaluating Starbuck's market share performance, very different pictures emerge as shown in the chart below.

	Starbucks Market Share (Starbucks and Seattle's Best)		**Starbucks Market Share (excluding Seattle's Best)**	
Category/ Sub-Category	2005	2010	2005	2010
Total Coffee	11.4%	10.6%	9.9%	9.2%
Entry Level Premium and Super-Premium	39.4%	30.8%	34.4%	26.8%
Super-Premium Only	Na	Na	60.2%	58.8%

7. When Starbucks' market share is computed against the combined entry-level premium and super-premium sub-categories, Starbucks market share does not look as strong as when compared to the overall coffee or super-premium only markets. I believe that this mainly is due to the rapid success of the premium, but lower priced Dunkin' Donuts brand. However, when compared to the total coffee market or only against the other super-premium brands, a different picture emerges suggesting that Starbucks experienced small decreases in market share in markets that continue to grow in sales, as does Starbucks itself. My own opinion is that all of

the market share comparisons in the above table are relevant and informative, but choosing to highlight only one comparison is misleading.

8. Starbucks has strong brand equity and Kraft has considerable marketing prowess and resources in the CPG channel. Kraft and Starbucks clearly drove the emergence and growth of the super-premium coffee sub-category; it is unlikely that the super-premium sub-category would be as big a business today without the Starbucks-Kraft 12 year partnership.

9. The question is why the Starbucks CPG coffee business has experienced slower growth over the last five years. One reason is that Starbucks' success in CPG channels attracted numerous competitors, including Peets and in some cases, retailers' own premium private labels. The entry of Dunkin' Donuts, a particularly strong competitor whose products are priced significantly below Starbucks, had an especially pronounced effect.

10. Another widely recognized reason for slower growth of the Starbuck CPG business was the recession which hurt many premium priced brands, including sales of Starbucks in Starbucks' retail coffee cafes.

11. Even very strong brands can lose market share as additional competitors enter a market that the strong brand helped to create. These additional entrants help drive strong market growth, even if it takes market share from the leader. One example is in the smart phone market, in which Blackberry was the original leader, then iPhone emerged and rapidly captured share while also stimulating additional market growth, and finally phones that run Google's Android operating system, a later entrant which has quickly eclipsed both Apple and Blackberry in terms of phones running the operating system. Despite the loss of market share, iPhone remains a strong and healthy brand.

12. In summary, Starbucks experienced considerable 12 year growth in the CPG coffee market. Although it is true that sales growth has slowed, it is because less growth can be achieved through increases in distribution (90% currently) and the entry of new competitors, some of which are formidable (e.g., Dunkin' Donuts).

13. Starbucks also argues that Kraft has breached the R&G agreement because, in 2009, it achieved 69% rack placement rather than the target rate of 80%. First, I do not consider an 11% variance in rack placement between target and actual implementation to be significant.

14. Second, in my own experience retailers often change their minds about whether they want and need manufacturer supplied racks. This happens for multiple reasons. If a retailer carried manufacturer supplied racks in every category, their store could not accommodate all of them and the retailer would lose control over the overall appearance of the store as individual brands would dominate the look and reduce continuity across categories.

15. Moreover, when Starbucks first entered the CPG coffee market, the shelves were set up for coffee packaged in cans, typical for mainstream coffee packaging at that time. Therefore specialized racks were helpful because they could accommodate the 12-16oz bag packaging of Starbucks products and also highlight the few SKUS of super-premium coffee product that the retailers carried early on. As the premium coffee category grew in importance to the retailer and gained more shelf-space, the need for specialty racks and the desire of retailers to accept such racks has waned. This seems to be a natural progression in how retailers want to merchandise the coffee category.

I declare under penalty of perjury pursuant to 28 U.S.C. § 1746 that the foregoing information is true and correct.

Dated: January 21, 2011

S/Hoch

Stephen J. Hoch