Marketing Scenario
Food Science Career Development Event – 2011

Memorandum

TO: Product Development Group
FROM: Market Research & Opportunity Group
SUBJECT: Meeting Market Needs for a Shelf-Stable Specialty Coffee

TASK: Using the materials, ingredients, pricing, and nutritional information provided, develop a shelf-stable specialty coffee drink that is more affordable than gourmet coffee house drinks

According to the National Bureau of Economic Research, the U.S. economic recession began in December 2007. While the Bureau stated the recession ended in June 2009, many would argue that the U.S. remains in a recession today. Average Americans across the country, especially those on the East and West coasts, have had to "tighten their budget belts." In the latest American Community Survey, the U.S. Census Bureau reported a 2.2% drop in median household income from $51,190 in 2009 to $50,046 in 2010. In fact, no state showed an increase in median household income during the same time period.

In addition to decreasing incomes, Americans are facing increased costs of goods and services due to higher raw material and fuel costs. The prepared coffee market is no exception. In September 2010, CNNMoney.com reported, "Starbucks drinks, long considered symbols of Americans' penchant to overspend, are about to get even pricier." In May 2011, the Associated Press reported that "coffee price increases have outpaced even the hike in gasoline prices the past year."

The U.S. coffee market is an $18 billion market. Coffee consumption in the U.S. remains 8th highest in the world. It has been reported that over 54% of the U.S. population, approximately 150 million Americans, over the age of 18 drink coffee daily. According to the Coffee Business Statistics Report, the average consumption of coffee in the U.S. is 3.1 cups per day. Furthermore, sales of specialty coffee drinks has increased by approximately 20% per year. The Specialty Coffee Association of America has reported that approximately 30 million Americans drink specialty coffees, such as mocha, latte, espresso, café mocha, cappuccino, and iced/cold coffee beverages, daily.

Even during these difficult economic times where money is tight, coffee drinks remain a staple to many. While American coffee drinkers will not give up coffee completely during a recession, they will look to purchase cheaper coffee brands and products. In other words, consumers still want the coffee shop experience, but they want cheaper prices. Studies have shown that women drink coffee based drinks to relax while men drink coffee because it "helps them get the job done." Keeping this in mind, coffee companies have invested millions of dollars perfecting specialty coffee drinks that are shelf-stable in an effort to help consumers keep the indulgent coffee house experience without the expense. For example, consumers can readily purchase Starbucks' line of frappucino beverages from the local market or gas station. In fact, a new flavor of the frappucino line, Mint Mocha, has just been released and will be available for a limited time.

The addition of unique and complimentary flavors has been shown to add value to coffee drinks. Technomic, Inc., a Chicago-based foodservice research and consultant firm, estimates that 20-30% of coffee sales are made up of flavored coffees. Further studies have shown that developing flavors that coincide with holidays (such as Thanksgiving, Valentine's Day, etc.) have been extremely effective. However, it should be noted that the most important factor to consider when adding flavors is great taste.

Obviously we will not be pioneers in the shelf-stable specialty coffee beverage category, but we can gain our share of it with a properly developed and marketed product. Sound marketing plans are needed to launch this shelf-stable specialty coffee drink so that consumers will want to purchase our product instead of a competitor's. This includes following a standard ratio of coffee to other ingredients. Below are some typical specialty coffee drink types and ratios that might be of assistance to your team. While these drinks are common, this list does not include all specialty coffee drinks. As your team develops your final product, please do not feel as though you have to use something from the list below.

Coffee Drink Type	**Ingredients and Ratio**
Café au Lait	Brewed coffee and milk at a 1:1 ratio
Café Breva	Espresso and half & half with a 1:2 ratio
Caffe Latte	Espresso and milk with a 1:3 ratio
Cappuccino	Espresso and milk with a 1:2 ratio

Packaging and pricing strategy are very important in the placement of our product. We need to select the most efficient yet attractive means to package this shelf-stable product. Early research has shown that customers desire single serve packaging options so as to be able to purchase a variety of different coffee types and flavors. Additionally, we need to demonstrate that this is a specialty product that is priced attractively during a time when the discretionary funds of many Americans has decreased. The National Coffee Association reports that women seem to me much more concerned about price than men. We believe we could gain a significant portion of the market share if our product costs approximately 25% less than a similar coffee drink purchased at a coffee house. This means a price between $0.15 and $0.20 per ounce with brewed coffee drinks being significantly cheaper than espresso based drinks.

Your team should determine a catchy name, marketing panels for the packaging selected, an accurate nutrition panel, and specific plans for how to launch the product in the first six months. We also need your team to clearly identify key processes for production and quality control within your production plan. With respect to marketing, we need your insight on the most appropriate market channel for us to target:

- Traditional Grocery Chains (Kroger, Safeway, Publix, etc.)
- Convenience Stores (7-Eleven, QuickTrip, Speedy Stop, etc.)
- Mass Merchandisers (Target, Walmart, kmart, etc.)
- Club Stores (Sam's, Costco)

Each of these market channels offer different opportunities and challenges. In particular, we need your insight on which market channel your team believes we should target first. Given the fact that those on the East and West coast have been hardest hit by the recession, your marketing communication plans should also address how the company should deal with the regional markets located throughout the U.S.

Looking at the overall market and consumer behavioral characteristics, it can be assumed that our product should:

- Appeal to both men and women
- Include flavorings that coincide with a holiday offering
- Include flavorings that create the indulgent coffee experience
- Follow standard coffee drink mix ratios
- Sell at a reasonable price that will be readily accepted by consumers
- Cost at least 25% less than specialty coffee drinks available at coffee houses
- Be of comparable quality to specialty coffee drinks available at coffee houses

We are eager to seeing what kind of product you develop and are looking forward to hearing your full report.

Good Luck!!!