

**SPECIALTY COFFEE EXPANSION IN  
TRADITIONAL RETAIL: LESSONS FROM NON-  
TRADITIONAL RETAILERS**

by

ALISON ROSENBLUM

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Major Professor  
Dr. Vincent Amanor-Boadu

## ABSTRACT

Despite at least three waves of transformations in the US coffee retail market, traditional retailers have not altered their merchandizing approaches for decades. This may be due primarily to the fact that there are still margins being made in selling canned coffee, the initial coffee wave in this research. Yet, because of their significant role in the retail segment, traditional retailers cannot be ignored by coffee suppliers. This implies that with each shift in the coffee industry, it is important for the participants to find ways of enabling the traditional retailer to make the necessary transformation – at least with their products – so that they can secure their market share and their continuing success.

The research develops a number of case studies of different coffee retailers who are developing innovative processes for merchandizing new coffee formats, such as Keurig K-Cups and Ready to Drink (RTD) products. The research shows that coffee merchandizers can learn from these retailers to develop support programs for their traditional retail customers to leverage their importance in the coffee market to enhance their own sales and profitability.

We identify a number of value innovation strategies that may be used to achieve this objective of enhancing performance in traditional coffee merchandizing. For example, we identify a store-within-a store strategy that is already in operation for a number of product categories in traditional retail, and suggest that it be expanded to include coffee. This approach will elevate purchases across the segment and help enhance overall competitiveness. The approach is not unlike Kroger's treatment of its natural and organics as a separate department or Roche Brothers' creation of a gourmet specialty, which is prominently displayed near the store's entry. It has become a prime location where new and

exciting entrants to the specialty assortment are presented to shoppers in an elevated way. In this location, they are typically expected to sell-through initial quantities rapidly.

The research presents innovative ideas to help coffee purveyors help their customers reposition emerging “waves” of coffee products in their traditional retail systems. It hopes that traditional retailers will benefit from the case studies of lessons from other categories and initiatives so that they can improve their own performance, and in so doing help coffee purveyors enhance their own performance.

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## CHAPTER I: INTRODUCTION

### 1.0 Background

Coffee in the United States has been undergoing waves of historical transformation every few decades. Whenever these transformations occur, coffee retailers have to adjust their merchandizing and category management strategies to maintain their relevance as sources of supply for their customers. Traditional retailers sometimes have difficulty making the necessary adjustments to ensure their success. Yet, because of their large role in the retail business, they cannot be ignored by any player seeking to be successful. This implies that with each shift in the coffee industry, it is important for the participants to find ways of enabling the traditional retailer to make the necessary transformation – at least with their products – so that they can secure their market share and continuing success.

At least three distinct “waves” of transformation can be distinguished in the coffee segment in the US. The “first wave” begins with the commercialization of coffee and its transformation into a household product. It is characterized by such products as Folgers and Maxwell House canned coffee. These products are mostly prepared and consumed at home. They have been dominant in the U.S. coffee market for decades. And although their presence started waning in the 1960s, canned coffee products are not to be dispensed with, a factor that creates challenges for traditional retailers to make the necessary adjustments for their long-term survival.

The “second wave,” defined by bagged coffee presented by companies such as Peet’s, started around the mid-1960s and has been pushing the consumption envelope in the coffee market ever since. The primary value proposition of the players in the second wave was higher quality Arabica that produced a better coffee experience at home and away

from home. The second wave also saw companies such as Starbucks' and the rise of the \$4 latte, altering the consumer relationship with coffee in a very dramatic way.

We are now in the “third wave” of the transformation of coffee in the United States. This wave is characterized by roasters who seek to provide provenance to coffee the same way that winemakers have been doing for their products for decades. Beginning at about the turn of this century, the companies driving this wave focus on highest possible quality specialty coffee and coffee products that target a very well-defined customer segment that is educated and curious about the fine characteristics of coffee, and the elements that contribute to its quality. These customers are the coffee connoisseurs.

### **1.1 Research Problem**

The interesting thing about these coffee waves is that the emergence of new ones do not annihilate prior waves. This may explain the difficulty that incumbent retailers in the prior waves have with understanding the role of the current or emerging waves and the effect of these changes on their ability to sustain profitability in the coffee aisle. For example, when retailers do not see the *complete* disappearance of canned coffee after nearly five decades after the emergence of the second wave, it is not difficult to develop a perception that not much change is happening. This is especially true when they can still realize profits from selling canned coffee. However, for the purveyors of the products of the latest wave, the lack of appreciation of the ongoing changes can be frustrating. There is, therefore, a need for these new wave purveyors to think about how they help traditional retailers improve their appreciation of the change that is happening with coffee and how they can improve their merchandizing and category management in the coffee aisle. The problem of this research is framing the process by which new wave coffee purveyors may engage traditional retailers in taking full advantage of the change to ensure higher

profitability in their coffee aisles. Given that traditional retailers have the highest consumer traffic, helping them succeed is a rational strategy for the new wave coffee purveyors in ensuring their own ability to enhance their ability to improve their market share through penetration and sustain their profitability.

## **1.2 Research Objectives**

The research is conducted from the perspective of a new wave operator. Its overall objective is to develop initiatives that would help traditional retailers develop a better appreciation of the opportunities presented by the changing coffee offerings and, as a result, be better able to make the necessary alterations in their management strategies to enhance the profitability of the coffee aisle. The specific objectives are twofold:

1. Describe how non-traditional retailers have been seizing the opportunities presented by the new waves occurring in the coffee industry; and
2. Use the experiences of these non-traditional retailers to develop strategies for traditional retailers so they can leverage their existing scale economies to enhance their performance with the transformations in the coffee industry.

## **1.3 Methods**

The principal analytical tool employed in this research is Strategy Canvas and Value Curves as presented by Kim and Mauborgne (2005). These tools have been modified to facilitate their effective use in the coffee category of the retail industry. The ERIC Model (Amanor-Boadu, 2007), which focuses management attention on eliminating and reducing activities that produce little or no value while increasing or creating those that promise to produce higher value than their marginal cost of production, is also employed to provide direction on how traditional retailers may create new value and possibly expand their market boundaries through eliminating, reducing, increasing or creating new options and

solutions for their current and new customers. We use secondary data from numerous sources, including IRI and Nielsen, to contextualize the discussions. The work is presented as a series of case studies that evaluate innovative players against whom traditional retailers may be benchmarked. The lessons from the operational initiatives these non-traditional retailers use in their handling of coffee and other unique products are used to inform the development of solutions for traditional retailers to help them become more engaging of the purveyors of products in the growing third wave of coffee transformation – and more broadly, with the “specialization” as products of higher quality become increasingly desirable in the market.

#### **1.4 Layout of the Research**

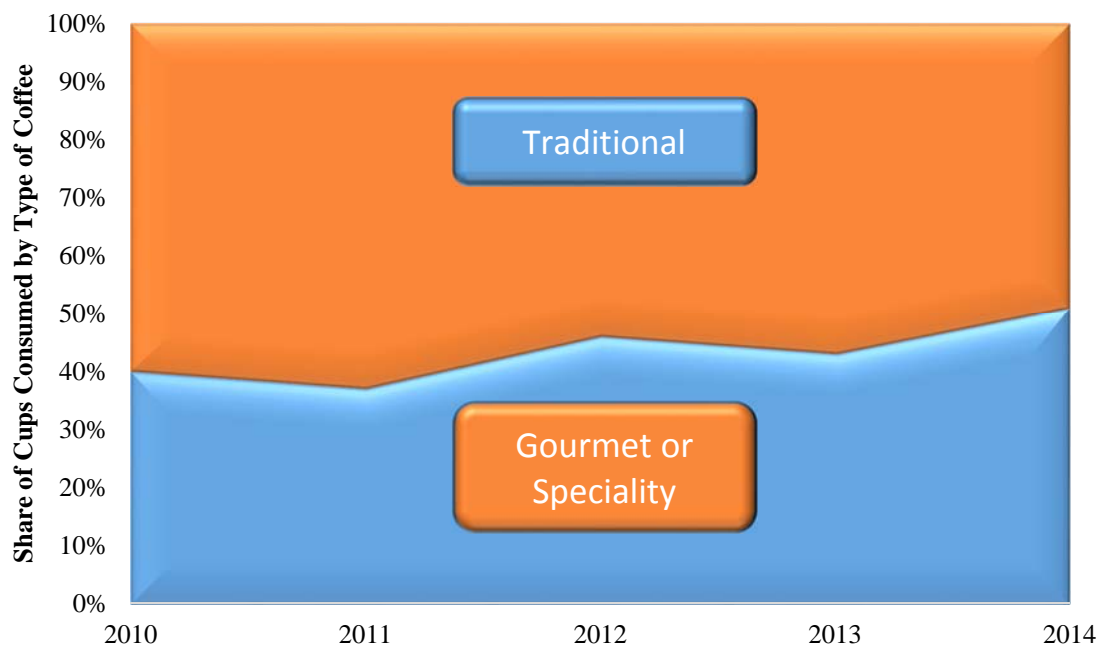
In this chapter, we provided an overview of the changes going on in the coffee aisle of retail and introduced what we described as the three waves of coffee evolution in retail spanning the last century or so. In Chapter 2, we provide a more detailed overview of the coffee industry. Chapter 3 looks at the strategies being pursued by two principal groups of retailers who are taking advantage of the emerging trends: the high end and high value players. We frame their strategies within the construct of Blue Ocean Strategy’s value curves and strategy canvas, providing insights for other retailers to explore their unique strategies using these tools. Chapter 4 summarizes our observations and concludes the research with suggestions for further research activities in this area.

## CHAPTER II: THE INDUSTRY’S TRENDS AND BEHAVIOR

### 2.0 Overview

Although the dominant segment in the coffee sector is still “traditional,” or canned coffee, its trend has been downward over the past several years even as the gourmet or specialty coffee consumption trend has been upward (Figure 2.1). For example, in 2010, canned coffee accounted for 60% of all cups consumed, but in 2014 for the first time, gourmet coffee consumption surpassed it, representing just under half of cups consumed (NCA, 2014). Although canned coffee’s share of consumed coffee has been declining, it was still a \$2.7 billion business as recently as 2013, according to Nielsen (2013).

**Figure 2.1: Distribution of Cups of Coffee Consumed—Gourmet or Specialty Coffee v. Traditional Coffee (2010-2014)**

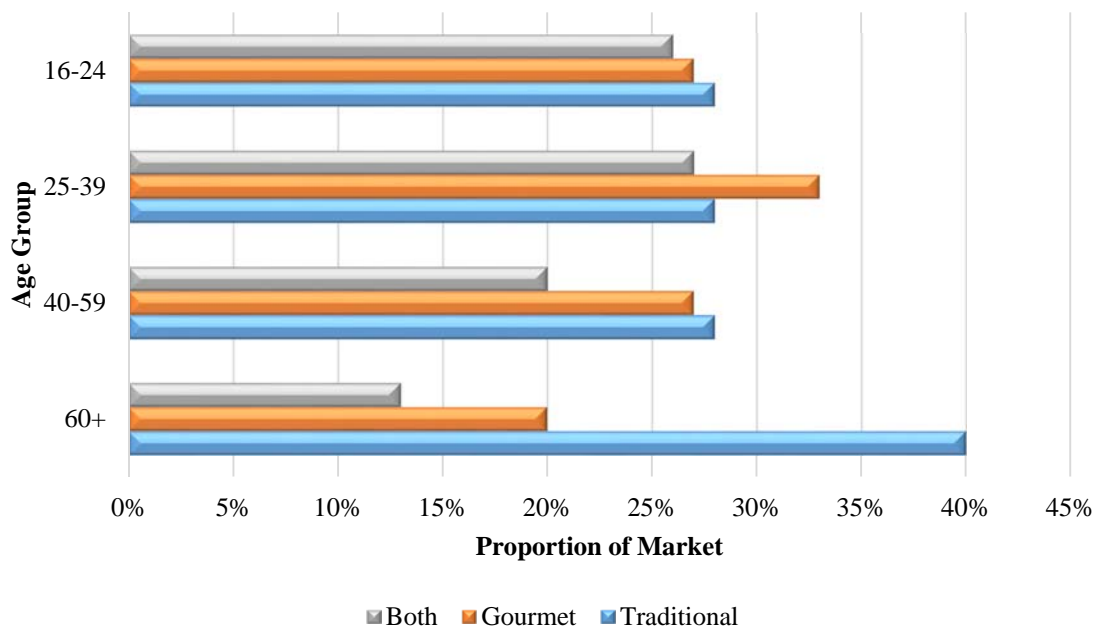


Source: National Coffee Association, 2014.

When evaluated over the long-term, it is evident that the decline in canned coffee share of cups consumed has been accelerating in recent years. For example, the share of

consumers reporting they have consumed coffee in the past day for traditional coffee declined from 44% in 2000 to 34% by 2014 (NCA, 2014). The reason for this trend may be attributed to the declining share of the population 60 years and over who are the primary consumers of canned coffee. This is illustrated by Figure 2.2 below. For example, while consumers 60 years and over accounted for 40% of the traditional market and 20% of the gourmet market, consumers 25 to 39 years accounted for 33% of the gourmet market and only 28% of the traditional market. Overall, 34% of American consumers drank gourmet coffee in 2014, up by 3% from 2013. On the other hand, daily consumption of traditional coffee was down by 4% to 34%. Thus, traditional and gourmet report equal share in the proportion of cups consumed for the first time.

**Figure 2.2: Past Week Consumption of Coffee by Age and Type of Coffee**



Source: National Coffee Association, 2014

The changes in the type of coffee being consumed are accompanied by a change in where consumers are buying their coffee. Customers, in the past, have preferred buying



their coffee from retail stores (Hartman Group, 2014). Consumers are now purchasing their coffee from multiple places: sit-down restaurants, fast-food restaurants, coffee shops, gas stations and grocery stores. With the increasing diversity of purchasing locations has come increased price sensitivity because of increasing demands for both convenience and quality. This implies that retailers have reason to be more sensitive to the competition that the other channels present them and to leverage their existing strengths to seize – and keep – their sales opportunities.

## **2.1 The Coffee Waves**

Well-informed grocery retailers have been studying the changes in the coffee industry – both fundamental and trends – and finding ways to incorporate these changes into how they approach their coffee categories. The coffee category presents high cost products, which have potential to motivate store trips (because no one wants to wake up without coffee in the house) and significantly enhance overall store sales. However, because the segment is undergoing such rapid change, there is currently no “tried and true” approach to successfully implementing a winning approach to coffee in grocery.

As indicated in the Chapter 1, there are three transformational waves in the coffee market (Figure 2.3). The “first wave” of coffee merchandizing in the U.S. involved essentially a single product – a can of ground coffee – which was purchased by a consumer for brewing or percolation at home. This market during this period was dominated by two principal brands: Maxwell House and Folgers. They were so dominant in the coffee market that they could be identified by their colors alone – blue for Maxwell House and red for Folgers. Maxwell House is currently owned by Kraft Foods while Folgers is currently part of the food and beverage division of J.M. Smucker and Company.

**Figure 2.3: The Coffee Transformational Waves**



Maxwell House was founded in 1892 in Kentucky and takes its name from its first major customer, Maxwell House Hotel. Kraft General Foods (now Kraft Foods) purchased Maxwell House in 1928 and has maintained it through its various divestments and acquisitions. Folgers was founded in 1872 in San Francisco, CA by J.A. Folger and became a major player in the U.S. in the mid-20<sup>th</sup> Century under the leadership of Mr. Folger’s great-grandson, Peter Folger. Proctor and Gamble acquired Folgers in 1963 and sold it to the J.M. Smucker Company in 2008. Thus, the history of the biggest names in traditional coffee go back more than 140 years and the wave they started may be noted to have engaged the American at-home consumer in the mid-1940s.

Bagged coffee may be classified as the “second wave” of coffee in the U.S. While the first wave focused on accessibility, the second wave’s focus has been an emphasis on higher Arabica quality beans and the coffee “experience” both in cafés and in the home, as

a product attribute. The second wave has grown into a mainstay and a primary source of industry interest and growth over the past four decades.

Just as was found in the first wave, two companies dominate the second wave: Peet's Coffee & Tea and Starbucks. Peet's Coffee & Tea was founded by Alfred Peet in Berkeley, CA in 1966. Peet's official website reports that its one store in Berkeley had become "a gathering place for coffee devotees" by 1969. Starbucks was founded in Seattle a couple of years after Peet's Coffee, pursuing, just as Peet's, customers willing to savor and appreciate the coffee instead of just drinking it out of habit. Peet's Coffee & Tea and Starbucks have driven growth in this market and created a segment that today has nearly \$2 billion in retail sales (Symphony IRI, 2014). Starbucks' growth in number of stores around the country and around the world paved the way for the creation of the \$4 latte mentality. The new experience that emerged in the second wave consumed coffee not as a pick-me-up in the morning, as has been in the past, but as a *love affair* with the product, and the act of ordering and enjoying it.

The second wave has been boosted by the expansion of the market beyond the two pioneering companies. What has been described as the "Breakfast Wars", involving companies such as Dunkin' Donuts, Panera, and new entrants as unlikely as McDonald's and Taco Bell, has boosted sales in the coffee market during this second wave of transformation in the industry. The "Breakfast Warriors" objective of these players seek to leverage coffee with their traditional breakfast food sales because of the recognized trends of consumer desire and appetite for high quality (and commensurately higher priced) coffee wherever they can get it. They recognized an opportunity to target customers who come to their establishments for their breakfast burrito or donuts and then drive across the street to

Starbucks to pick up their coffee. So, they have increased the quality of their coffee products, with companies such as McDonald's promising their customers that McCafe is 100% Arabica coffee (the species of coffee from which all high quality is made). What is interesting is that McDonald's is pricing its McCafe at just \$1 everyday, a pricing strategy that is putting significant pressure on the other players in the second wave, including those who created the discerning coffee drinker – Starbucks and Peet's. So, the value proposition of original second wave that quality of coffee has to be high has been challenged by the breakfast warriors with a value proposition that high quality coffee now must also be affordable and is accessible.

A third wave of coffee is now also emerging, and it is characterized by roasters who have existed since the beginning of the 21<sup>st</sup> Century. They are only now beginning the migration beyond their specialty coffee houses and into traditional grocery store aisles. Third wave coffees often retail in the \$14-18 range (sometimes for just 10 ounces, rather than the conventional 12 ounce bag). Initially limited to only being available at coffee houses by exacting freshness standards, and dedication to packaging in non-shelf stable Kraft bags, the “third wavers” are finding distribution (at times piggy backing onto dairy item distribution channels, with shorter shelf life than other dry grocery items), and being welcomed with open arms by the unmet demand of the growing number of coffee connoisseurs.

Responding to and elevating the growing ubiquity of “specialty” coffee in the second wave, the “third wavers” are elevating dialog about quality coffee, where it comes from, and how it is made. Nick Cho, one of the leaders in this evolution, explains that when you buy a bottle of wine, “you know the vintage year, the winery, what kind of grape it is.

In coffee, it is as if you walked into a wine shop and all it said was ‘Australian wine.’ We need to be able to walk into a store and see coffee with ‘roasted-on’ dating. The labels should not only give us the country of origin and degree of roast, but the actual farm or estate that it comes from” (Imbibe Magazine, 2006).

Demand for this third wave coffee has reached a point now where private equity investors are providing resources for the companies to be more aggressive in their offerings and their distribution systems. For example, Portland, Oregon-based Stumptown Coffee Roasters received an undisclosed amount of equity financing from the private equity firm TSG Consumer Partners<sup>1</sup>. Similarly, Blue Bottle of San Francisco recently obtained second round of financing, bringing its total raised to \$46 million<sup>2</sup>. These funds are going to allow these companies to more aggressively market their concept of higher priced, handcrafted and responsibly-sourced coffees that targets a niche consumer who is cognizant of numerous social, environmental and economic factors and their influence on their consumption. They are driving distribution through new cafes in new markets and expanding into non-traditional grocery stores who understand the market direction and these coffees’ value proposition. The strength of the opportunity in the third wave market is evidenced by the segment average price that is being charged. Peet’s, for example, is currently the only major national brand charging an average price over \$10/bag in grocery stores; it is also the only major brand experiencing growth in channel. This over \$10/bag price point is attractive enough to bring new players with new formats and new innovative products and value propositions into the market to drive this wave forward more aggressively.

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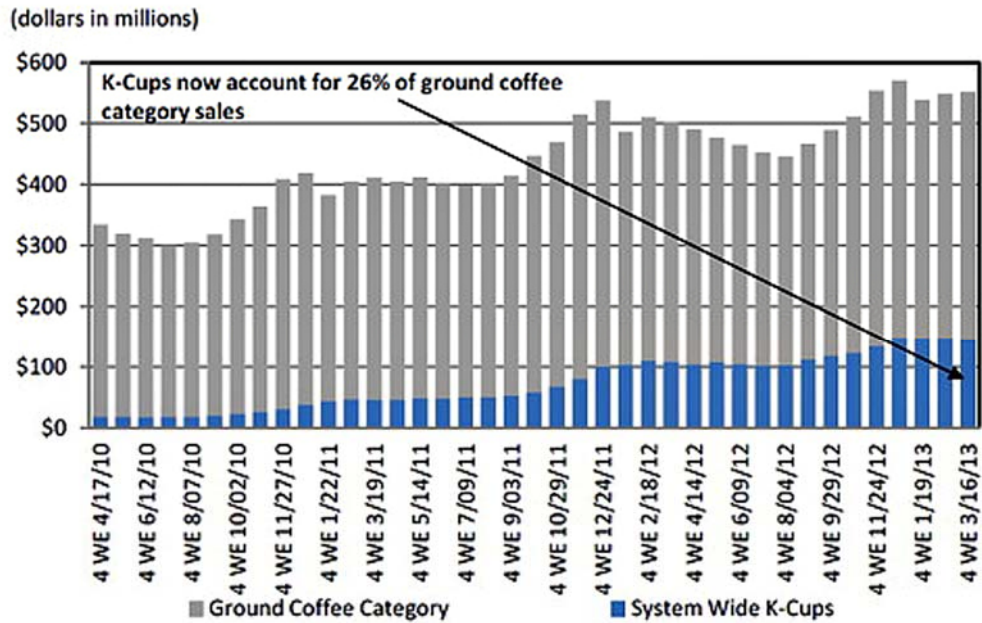
<sup>1</sup> [Little Espresso Bars Might Be Big Business](#), Oliver Strand, June 7, 2011.

<sup>2</sup> Tico Times, [Coffee's third wave?](#), Will Oremus, Slate, March 26, 2014.

As noted earlier, the quantity of specialty cups consumed surpassed traditional cups consumed for the first time in 2013 (NCA, 2013). With this rise in specialty coffees has come not only a change in supply dynamics, but a change in the overall coffee consuming experience. This, of course, covers the whole supply chain, beginning with the sourcing higher coffee quality, managing the chain of custody, and through production, handling, distribution channels, sale location, preparation and consumption. Of course, consumption is important because events and occasions are significant influencers of the type of consumption that occurs. These industry dynamics have both contributed to driving these shifts, and continue to change rapidly as a result.

Perhaps the biggest shake-up to the world of coffee became significant in just the last decade. The introduction of the Keurig K-cup brewer as a household appliance took hold of the coffee world and brought satisfaction to many would-be home brewers because it was fast (pod to cup in 20 seconds), convenient (effortlessly transitioning between regular, decaf and flavored drinkers, as well as, the kids' cocoa) and comparatively cheaper than a cup at the local Starbucks. Its performance in the ground coffee category has even been more dramatic, accounting for about 26% of ground coffee sales by end of the first quarter of 2013 (Figure 2.4), and growing rapidly.

**Figure 2.4: Category: K-Cup Sales in the Ground Coffee**



Source: Nielsen Scantrack Enhanced AOC

Despite the cup price being one of two major complaints about the system (the other being quality), Keurig machines (used in the brewing of K-cups) as the dominant player in the market, have made their way into 12 million homes and offices (Packaged Facts, 2013). As the significant driver of coffee industry growth today, retailers are taking an interest in the segment and all by now are making significant space available for it – up to 12 feet of it for the most committed retailers. At one time with triple-digit growth, Keurig conversion continues as the machines comprise one out of every three new brewers sold, ensuring its adoption and longevity despite growth slowing to about 60% year-on-year (Nielsen, 2013).

The ready-to-drink (RTD) segment is also pushing the boundaries of the second and third waves of coffee in the retail store. Recent introduction of shelf stable and refrigerated category products, led by Starbucks’ Frappuccino, is a good example of these new product introductions. Fueled by trends around specialization, its corresponding higher willingness

to pay, as well as convenience, RTD is growing at 10.6% (shelf stable) and 27.6% (refrigerated), and is projected to reach \$2.6 billion at retail by 2020 (Cernivec, 2014).

International Delight was the first to successfully introduce a half-gallon value sized product, and to place RTD coffee in the dairy case. The success of International Delight has attracted competition from the likes of Starbucks with its Discoveries brand, Blue Diamond Almond Breeze brand, Califia and a host of other new iced variations. These products have respectively seen growth of 1,372.4%, 1,206% and 1,226.4% since their arrival in the market in 2013! With a focus on quality as the next source of competitiveness, individual cold brew offerings, such as Stumptown's "Stubbies" are now appearing on the market. Cold Brew coffees are brewed using a long, craft brewing method which extracts deep coffee flavor and intensity without bitterness. With increasing growth in the segment, RTD products are expanding across categories (with the likes of Monster Energy's Java Monster), both reaching new customer bases such as millennials who have grown up with energy drinks, and they are satisfying existing drinkers' desires to try new and high quality products. These successes are poised to enhance new product development and introductions as cold brew processes are improved in various segments of the coffee industry.

## **2.2 Channels and Competition**

With all these new entrants and their activities in the coffee category, we may categorize products in the coffee aisle into six formats: (1) Cans; (2) Instant; (3) Bags; (4) Single cups; (5) RTD Shelf-Stable (primarily single serving); and (6) RTD Refrigerated (single serving and value-sized). Formats 1, 2, and 3 are the traditional offerings in most retail stores. However, we have shown that growth in the industry is occurring essentially being driven by the second three formats. However, changes in the industry are driving



specialty and non-traditional coffee purveyors to adopt strategies that are helping them win sales in the bag format, challenging one of the strongholds of the traditional retailer. The risk of losing specialty (bagged and single cup) coffee purchases to competitors or more progressive or specialty focused stores should be of increasing concern to the traditional grocer. Not only is coffee in itself one of the highest price point items in the store at an average of \$9 per bag, but the coffee buyer's market basket is also of exceptional value. The specialty coffee buyer is a valuable one, behaving not unlike the wine shopper when in the store, making additional and high value purchases. Nielsen (2011) reports that the value of the average market basket is \$51, but when bagged coffee is added, average basket almost doubles to \$100. When single cups are added instead, the average buyer's basket value of \$57 increases to \$109. An understanding of this dynamic alone must be enough to convince most retailers that there is great motivation to take steps to not only protect these purchases, but to capture more of them.

With 83% of potential coffee drinkers (18 and older) reporting past day coffee consumption (NCA, 2013), and 98% of households shopping in the grocery channel, one would think grocery stores would be an ideal place to purchase coffee. After all, these buyers are already in the stores, and are highly motivated to regularly purchase coffee to have at home (because no drinker wants to wake up in the morning only to find he has run out). But somehow, coffee drinkers are simply not spending their coffee dollars in traditional retail stores. Of the grocery store shoppers who buy coffee, only 55% of the retail coffee dollar is spent at grocery stores (IRI, 2012). This translates to about \$2 billion (IRI, 2013) because of the effect of lost spillover sales in addition to lost coffee sales. This potential loss may be greater for traditional grocers because of the changing dynamics in

coffee consumption presented above, and the retailers' reaction to them which will be presented presently. This is especially true because the retailers in this traditional segment have been marketing coffee in the same way they have done since the first wave of coffee hit the U.S. market, and many are slow to adapt to the macro changes that are re-shaping the industry.

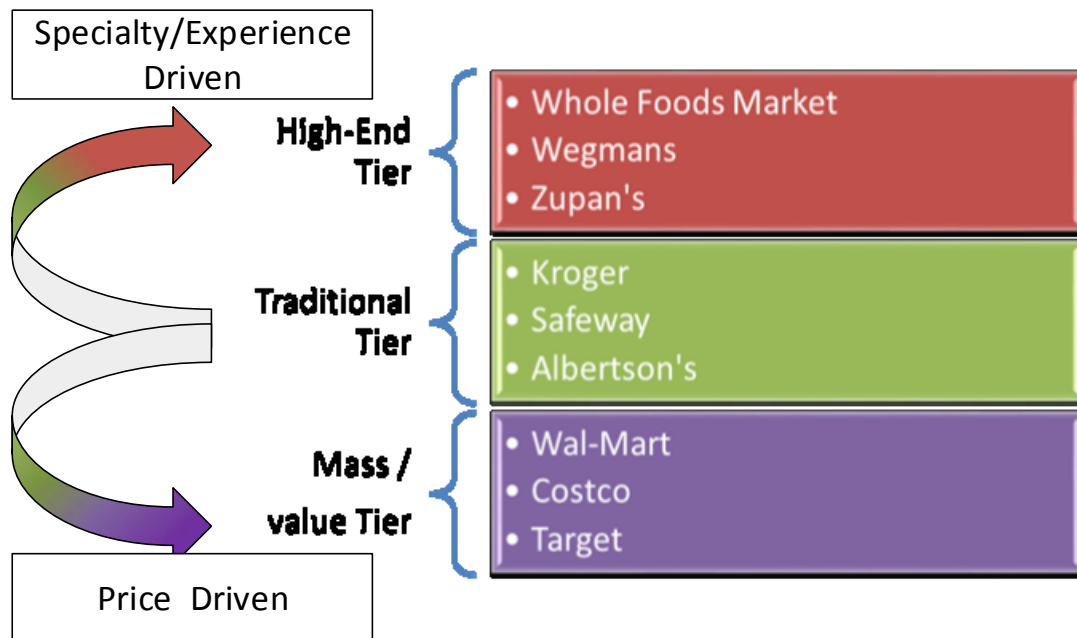
The foregoing suggests that these traditional retailers are experiencing a high leakage of coffee purchases to other channels, and that it could continue to grow. Even with the benefit of convenience on the grocery channel's side, an even more dramatic decline is occurring (or an eminent threat) for the traditional grocery tier due to the opposing dynamics that must be addressed in the channel. These challenges, as discussed above, include rising "specialization" in the coffee world, which has happened at each emerging new wave of coffee, as it has spread from niche to mass. Today, the core of it is epitomized by the third wave coffeehouse. The entrenchment of the foregoing is supported by an increasing awareness of and interest in coffee as a true specialty product. Specialization on the part of suppliers and awareness and interest in specialty products on the part of consumers are contributing to increasing demand for quality across board for all coffee, including even those at the bottom end of the specialty coffee spectrum.

### **2.3 Structure of the Grocery Retail Market**

The grocery retail industry may be structured into three main tiers: mass or value tier; high-end tier; and traditional tier. Competition is fierce within each of these tiers and sometimes, depending on proximity, across the tiers. Figure 2.5 illustrates the pricing and value philosophy that retailers operating within each of these tiers use. It also provides an indication of how value leakage occurs as the retailers fail to meet the needs of their specific consumers or those consumers migrate to other tiers given changes in their

incomes or the macroeconomic condition. Traditional retailers, such as Kroger, Safeway and Albertsons find themselves competing with high-end retailers such as Whole Foods Market and Wegmans for the segment of their customers with the wherewithal to shop at the high-end tier stores if they are unable to satisfy their needs for the specialty and experience-driven products that they seek. At the same time, they lose cost-focused customers who are extremely price sensitive and look to the Mass or value tier retailers, such as Wal-Mart and Costco, for their shopping activities. In this sense, traditional retailers are not sophisticated enough with their current business model to retain their high-end customers looking for specialty goods and too not providing value necessary to retain purchases from their most cost-conscious customers.

**Figure 2.5: Structural Organization of Grocery Retailers**



With specific regard to coffee, upper tier retailers, such as Whole Foods and smaller regional chains, are taking cues from growing specialty segments in the industry and

setting themselves up to win. Whole Foods is one retailer that is actively differentiating its coffee programs, and taking cues from the third wave companies to engage the curious, quality-focused coffee buyer accustomed to a quality experience and appreciating the “story” behind the product which gives it its worth. Whole Foods has built an assortment that is roughly divided into thirds among a best-in-class tiered private brand program, complemented by a well-curated selection of select national brands, as well as an assortment of third wave and locally sourced brands. The private brand coffee is also available at the chain’s in-house café that presents a coffee house atmosphere, thus elevating the store’s brand experience further, instead of supporting the ubiquitous Starbucks’ brand as many traditional retailers are doing. Sustainability and quality permeate the messaging, with grower connections demonstrating that selections have been responsibly sourced, bulk bins marked with roast dates for each batch, and recommendations and tasting notes augmenting the passionate and informed staff who are happy to assist in decision making, all to help ensure that the at-home coffee experience is going to be a very good one.

But even at the other end of the spectrum, Wal-Mart and other club retailers – where customers are more price-focused – are also taking steps to lure price sensitive customers’ coffee purchases away from traditional retailers. These stores are also acutely aware of customers’ increasing desire for more of a coffeehouse experience, and are committing to providing them with robust quality products that attempt to cover the spectrum of products, from organic to fair trade.

The demand for high value is evident nowhere as much as around the growing demand for K-cups. Although customers complain about the product’s lesser quality and

the lack of sustainability because of its packaging and brewing technology, informal in- and out-of-aisle research found that a high value 100-pack of K-cups drives many customers to make a monthly trip to Costco or to Bed, Bath & Beyond to redeem the 20% off one-item coupon that the store mails out regularly. With a price point per cup often in the \$0.75-1.00 range, which is high for a cup consumed at home, consumers are extremely price sensitive in their quest for quality (higher than traditional coffee) with convenience (much more so than brewing). These mass/value tier retailers are also succeeding with bagged coffee, investing in programs that offer high value, and often feature increasingly important sustainability stories.

The past two years also show moderate share loss within grocery to the dollar stores and the drug channels who are aggressively expanding their grocery offerings to include more bagged and single cup coffee. The execution of these strategies are succeeding in capturing a growing number of “fill-in” trips to these establishments.

Macroeconomic activities have also helped drive some grocery store coffee purchases to the mass/value channels. During the 2008 recession, we experienced the rise of the fill-in trip as gas topped \$4.00 per gallon, so nontraditional channels capitalized on the shopper’s desire to pick up high use items between bigger shopping trips closer to home. Dollar stores, drug stores, and convenience stores began increasing their investments in ways to capture price savvy consumers’ desire to make fewer, closer shopping trips so they could economize on fuel. They continue to invest in the grocery segment by building private brands and refining pricing strategies, to capture these high frequency (though relatively low margin, for the channel) purchases.

Despite the increasing specialization and the emergence of higher-priced single cups, traditional grocery retailers continue to present their customers with a shopping experience for coffee that resemble that of canned green beans. And at four times the price point, most of these customers do not see the embedded value that retailers are trying to communicate. Thus, through their own actions, these retailers cause their customers to migrate to the high-end tiers or to the mass/value tiers. Their merchandizing strategy often positions coffee in what was unaffectionately referred to of late as the “morgue” of the grocery store. These traditional retailers present their expensive bag coffee the same way as they present mustard and other commodity condiments, i.e., mustard, ketchup, relish, etc. A case in point buttressing this was recalled by one participant in a focus group organized for this study. The participant observed that the merchandizing in the traditional grocery store was so “dead in the morgue” that she chose to buy her bagged Starbucks from a Starbucks’ café instead of her local grocery store. It had never occurred to her that the same purchase with the same quality may be made on one of her regular grocery shopping trips.

What would it take to capture the shopper’s curiosity to explore the coffee aisle at a grocery store, and invite her to allocate a larger share of her regular coffee purchases to the grocery stores where she already frequents? In the next section, we will explore several retailers who have broken from this mold to identify what may be missing in the traditional grocers’ current strategies.

## CHAPTER III: THE CASE STUDIES AND THEIR LEARNING

### 3.0 Setting up the Case Studies

Coffee retailers may find insights from across the store, as well as beyond their walls which offer ideas how to incrementally, and sometimes dramatically, present coffee products in different ways to distinguish their stores. Retailers both within coffee and from other categories have built programs in product categories that successfully generate interest, excitement and hence, greater sales. Such changes are particularly valuable when designed to promote products that bring higher margin, drive repeat visits, and invite loyalty, such as gourmet or specialty foods. These programs reveal opportunities to elevate the whole coffee “experience” (which starts in the store) by addressing the challenges presented by an industry which is going through a shift in thinking about the product from a commodity to specialty item, and the corresponding price shift that accompanies it. Here we examine innovative and best-in-class programs using the Blue Ocean framework to understand areas of strength that may be leveraged as opportunities.

Using the Blue Ocean framework of Strategy Mapping, we identify several Critical Success Factors, which underlie the strategies employed by the retailers in their coffee programs, to understand which are being used, and serve to distinguish the programs in the specialty categories that coffee has become.

Then, by applying the ERIC model, retailers can leverage the experiences of retailers experiencing success in their coffee departments and apply them to their own coffee programs. By applying the case study ratings, they may make decisions around *eliminating, reducing, increasing, or creating* elements of the program that enhance shopper value in the category. The ratings are made using a set of Factors that span marketer’s toolkit of the Four P’s, product, price, promotion, and place. Together, these

concepts and provide a range of elements which can create shopper value during the coffee shopping experience, given the macro-shifts in the industry today.

**Table 3.1: Success Factors for Coffee Strategy Mapping**

| MARKETING CATEGORY | SUCCESS FACTOR         | DESCRIPTION   |
|--------------------|------------------------|---|
| PRODUCT            | Assortment             | Is a range of brands and coffee types offered?                              |
|                    | Specialty offerings    | Are higher end specialty coffees part of the selection?                     |
|                    | Sustainable offerings  | Are sustainable coffees or brands part of the selection?                    |
|                    | Private brand          | Does the retailer offer a unique private brand?                             |
| PRICE              | Competitive pricing    | Is pricing competitive within the market?                                   |
|                    | High End offerings     | Are high growth upper tier offerings available?                             |
| PROMOTION          | Guide decision making  | Does signage/merchandising guide decisions of the complex product category? |
|                    | Encourage exploration  | Is the product merchandised to encourage trial?                             |
|                    | Café or other tastings | Is the coffee available to taste sometimes or always to earn shopper trust? |
| PLACE              | Access to merchandise  | Is there easy access to coffee brewing merchandise?                         |
|                    | Cross merchandising    | Is effective and interesting cross merchandising used?                      |

While this research stops short of making specific recommendations, it serves to empower retailers with a toolkit of best practices as they are applied in different settings, which may be considered as possible next steps. Because every retailer must consider its own positioning, product strategies, merchandising conventions, resources and knowledge of its consumer preferences, taking the next step of evaluating how and when to apply these strategies must be left up to them.



In this chapter, we explore strategies used by select number of grocery retailers to market their specialty coffee by exploring their value maps and their Strategy Canvases with the view to developing a better appreciation of their paths to value innovation. The expectation is that this appreciation would provide some insights into how traditional retailers may be helped by the purveyors of third wave and coffees in other areas of high growth, to develop a different approach to merchandizing coffee. In so doing, these traditional retailers may avoid losing their top-end or bottom-end customers to primarily two tiers who are currently succeeding in grocery retail.

The research is divided according into tiers, who each present formidable, but distinctly different threats to the traditional retailer and their current approach to selling specialty coffee: within the first tier we examine high-end or specialty retailers, and how they are truly elevating their presentations of specialty coffee experience within the retail store. The second tier is represented by retailers investing in the new world of specialty coffee from the perspective of a retailer for whom high value is a key differentiator. We will examine the marketing and merchandising strategies employed by both, in contrast to the traditional retailer. The first tier encompasses Whole Foods Markets, Trader Joe's and the beverage room at Bed, Bath and Beyond. The second tier, value-focused set, includes Fred Meyer's-Hawthorne store, Target and WinCo.

### **3.1 The Traditional Retail Experience**

As mentioned, this research is based on benchmarking these case studies against an analysis of the "traditional" retailer. The traditional retailer is one which is treating their coffee category in much the way he has done in the past, without consideration for the macro changes occurring in the industry. The traditional retailer's current coffee experience

is based on evaluation of each of the aforementioned critical success factors, which contribute to program success in today's coffee market.

Analysis of the traditional retailer reveals a lack of distinction in most critical success factors, as noted in Figure 3.1. The single exception to this is in the area of pricing – these retailers are largely price competitive with their competitive set. This keeps them alive in the coffee business, but is not, on its own, a strategy that enables a retailer to thrive in the coffee business (as we see in the leakage numbers). The reason for this is that because price competition is largely based on a promotional strategy, which is driven by the national brands (typically the same national brands found by each of the retailers' key competitors). This single success factor erodes retailer margins, does not build shopper loyalty, and is not enough to build a healthy, sustainable coffee category for the long term.

Applying the ERIC model to the traditional retailer, we will demonstrate here the exercise of go through the exercise of identifying opportunities revealed through the Strategy Map, which can serve to strengthen the program overall. The traditional retailer value curve reveals they choose to *eliminate* programs that are no longer relevant to their shoppers judging by low scores in Product factors, but perhaps convenient or heritage programs. A common example of this may be unproductive secondary brands, which no longer optimize profit for the space they take on the shelf. Retailers may find an effective long-term strategy may be to *reduce* promotional activities that drive short-term revenue, but do not create long-term shopper loyalty. To make up for this, they may consider *increasing* the presence of higher tiered offerings that are in line with current market trends toward higher quality offerings – especially offerings that are not all available at the closest competing stores to drive loyalty and entice repeat purchase. They may also consider

creating a dynamic merchandising program to build awareness of the coffee program. This may be done simply, by introducing off-shelf merchandising with complementary products in the bakery section, or by introducing coffee tastings at the deli counter, where food preparation is already being done in the store.

**Figure 3.1: Value Curve for Traditional Retailer Coffee**



### 3.2 Specialty Retail Experience

One approach retailers take to elevate the coffee aisle is to leverage the value proposition of a truly unique and differentiated specialty coffee experience – starting with the in-store shopping experience, as a cue for more pleasure to come from in-home consumption. Capitalizing on the trend toward the “\$4 latte”, and an increasing willingness to pay for a high quality experience, grocers (largely high-end tier retailers) are delivering a coffee experience that would warrant charging such prices. Price is not so much a focus of retailers at this retailer tier. Or, to be more precise, *absolute low-cost* is not the focus. Perhaps more than ever, shoppers insist that what they buy must be price competitive, but

we know they have an increasing willingness to pay for an elevated coffee experience. Whereas coffee was once considered strictly in terms of its price per container, or price per pound, again we remember the \$4 latte. Therefore, there is a new perception of the value being offered. These retailers are changing the rules, and oftentimes looking toward a more aspirational “coffeehouse quality” experience, and thus, paving the way for a tiered offering that reaches into a higher price range, up-selling with occasion-based or seasonal merchandizing, and other innovative approaches.

### ***3.2.1 Whole Foods***

One of the most dynamic coffee programs in the industry is at Whole Foods. Its strategy map is the only one under examination demonstrating high scores in every category being rated. With conscious efforts to differentiate the assortment, to thoughtfully expand the offering into both high end specialty and high value, with competitive pricing in each tier, and a wide variety of merchandising techniques, which are limited only by the confines of the traditional grocery setting, Whole Foods may be considered a textbook example of what a grocery coffee set (and many other sets within the store) can be.

Whole Food’s commitment to this success likely pays tribute to the company’s demonstrated ability to win at grocery, even at a significant premium over standard grocery prices. Even though the strategy is a risky one in this time of price consciousness, and is being counter-balanced by its growing 365 value brand, Whole Foods has balanced the line of higher price for higher quality with a need for value longer than most retailers. Today, with 373 stores earning nearly \$1,000 per square foot (very high for the industry), and over 100 more stores in development pipeline, the commitment to the position has never been stronger.

Whole Foods same store and overall sales are both growing year over year, with 2013 revenue of \$13.9 billion was 10.4% higher than the previous year (Businessweek, 2014). However, we are witnessing a decrease in the rate of same store growth, as it decreased from 5.9% to 5.4% as the stores face increased competition in the space (Sharf, 2014). Despite this difficulty in same-store growth, Whole Foods continues to improve efficiencies as it grows, and keeps costs of goods and operations down. But as traditional grocers expand their offerings in the natural and specialty space, dominated historically by Whole Foods, the company comes under increasing threat.

An increasing number of shoppers seek these premium items, and are willing to pay the price for their enhanced flavors, freshness or health benefits. The stores are also eager to reap the benefits of increasing sales and their attendant premium margins for specialty items while shoppers are already in the stores. To this end, they are “premiumizing” shopping experiences in many categories – including coffee – in an effort to keep these sales. Whole Foods continues to employ strategies to achieve these outcomes by ensuring its ability to deliver value both at the highly differentiated specialty tier and by offering quality and responsibility in a competitively priced (and increasingly more so) value tier. So, the company is playing on the top end even as it is building attractiveness at the lower end of the tier to become attractive to higher end customers in the traditional retailer tier.

Whole Foods Market’s value curve is presented in Figure 3.1. It shows how the company’s 4 P’s track against those of the traditional tier retailers. Within the Product category, we explore assortment, specialty offerings, environmentally sustainable offerings, private brand and a differentiated private brand. For price, we look competitive pricing strategies and availability of high-end offerings. For promotion, the critical success factors

explored are guidance or support for customers in their decision-making or selection and the availability of experiential activities such as tasting and exploration. Finally, the critical success factors with respect to place encompass the nature of the physical space to facilitate exploration by the customer, accessibility to coffee merchandise and cross merchandizing with other categories.

The Whole Foods coffee assortment is carefully curated to span a range from well-chosen value offerings (largely from its own value brand (described shortly) and seasonal rotating blends to national and locally produced upper tier “third wave” or well-positioned sustainable brands, with clearly stated social and/or environmental goals. As indicated, the company’s stated assortment is organized into thirds among its private brand – which spans the full range from value to premium origins and limited editions, national brands which are chosen by national or regional buyers, and selections of local interest, which often are small, boutique roasters of highest quality.

Whole Foods makes great efforts to expand the reach of its coffee selection beyond the confines of the coffee aisle more effectively than nearly any other retailer. Beyond off-shelf merchandising (which it does exceptionally well, both of core as well as limited time offerings), it is one of the few retailers to fully capitalize on the presence of an in-store coffee shop as an opportunity to promote its own brand of coffee and customers in that way. Leveraging the coffee shop, presence of “coffee specialists” in the store, and events focused around coffee act together to bring awareness to the program and create a halo of expertise around the staff who creates the program. “Manic Mondays” were a recent event at an urban store location, where many shoppers and businesses have a presence during the day. From 10 am to 12 noon on Mondays, the store organized coffee samplings, with an in-

store specialist pouring the coffee for the guests. This not only created knowledge and excitement and sales in the coffee aisle but also generated sales across the store. With similar events around beer (with some locations boasting a beer bar, with several offerings of beers brewed on-site), wine, and food occasions the basis for other such experiences, Whole Foods is becoming a destination not only for groceries, but for gathering and education that clearly make the premium price paid worthwhile in many instances.

To satisfy shoppers with higher price sensitivity, Whole Foods introduced its “365” brand across virtually all categories, emphasizing stock-up items and center store. This strategy aimed to combat the image that Whole Foods was “Whole Paycheck” store. Thus, the brand offers the consumers the opportunity to “fill your pantry without emptying your pocketbook.”

The 365 brand embodies the traditional and the innovative, appealing at once to the traditional and the modern consumer, to the price conscious and the Whole Foods loyalist. Reminiscent of the basic white packaging of the early days of private brands, 365 is clean and basic white, but upholds the Whole Foods quality taste and ingredient promise.

Coffee does play in the 365 value space. The own brand offering comprises lower but acceptable quality canned coffee that would put Folgers to shame. With branding that is at once a nod to the “traditional” segment, but manages to appeal to a younger, value seeking shopper who is looking for the traditional value it offers, as well.

With offerings that truly span the range of what shoppers today are looking for, and finding ways to capture the attention of the shoppers who are in the store, Whole Foods is doing as good a job as any at keeping those coffee dollars being spent by its customers in its stores.

Figure 3.2 shows that with the exception of price, the traditional retailers are in a league of their own against Whole Foods Markets. They are weak on assortment without a lot of specialty offerings. While they are increasingly bringing high quality private brands to their offerings, they have failed to become acclimatized to the changing environment that is enveloping coffee with respect to sustainability and guiding the consumer in decision-making. They do not make many attempts to create the environment for their customers to explore their coffees or sample them in a routine and orchestrated manner. These are the critical success factors that they need to reconsider if they are going to transform their first wave coffee merchandizing programs and migrate into the third wave programs that companies, such as Whole Foods Markets, are executing.

**Figure 3.2: Value Curve for Whole Foods Market’s Coffee**



### 3.2.2 Trader Joe’s

A hybrid between a value focused grocer and a sophisticated specialty merchant may be Trader Joe’s. The company’s primary innovations are on the shelves, signifying its



imaginative and unique use of space. Trader Joe's store formats are small – between 8,000 and 12,000 square feet, reports Fortune (2011). This contrasts with the grocery industry median format of 46,500 square feet (FMI, 2013). In a relatively small time, the company has put a unique signature on the grocery trade. However, being a private company, it is difficult to get its sales and other business performance information.

With over 400 stores, Trader Joe's is said to target an “unemployed professor who drives a beat-up Volvo.” From this, one instantly understands products are targeted to the highly educated, sophisticated yet value-seeking shopper. The creator of the “Two Buck Chuck” wine experience which made “extreme value” wine acceptable on American dinner tables, Trader Joe's succeeds perhaps better than any other at the merchandising and sale of unique specialty foods that targets value-seeking customers.

A 2013 Market Force study found Trader Joe's second to no other grocer in customer satisfaction (Retail Wire via [Forbes](#), 2013). “Location, prices, promotions and selection are the table stakes to a favorite grocery store,” wrote Liz Crawford, VP, Strategy & Insights, Match Drive, with the annual sales per square foot estimated at about \$1,750, more than double its closest contender, Whole Foods,” (Kowitt, 2014) and triple the industry average of \$500.

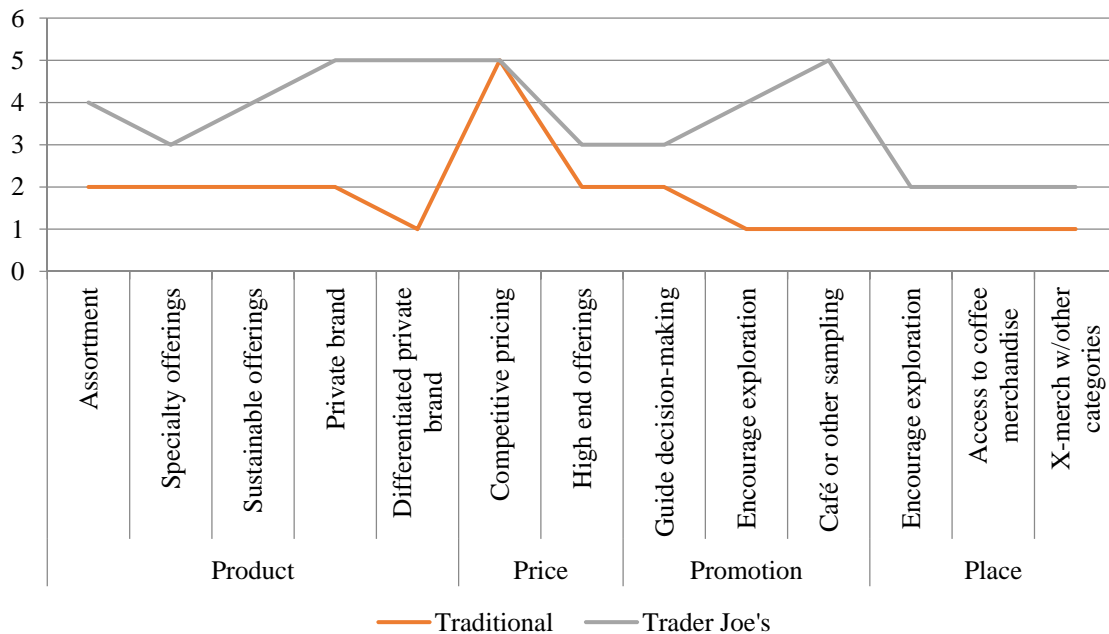
Coffee is as a complex product as wine, exhibiting very special product attributes that allow products that superficially look homogeneous to be differentiated into very heterogeneous products. And like wine, it has been found that consumers have strong loyalties to a few brands. However, specialty products with stories behind them – stories of transparency, sustainability, and provenance – are transforming the demand structure in the sector and contributing to the creation of new demand.

Coffee is highly amenable to being a source for rich product stories because of its faraway origins for consumers in North America and Europe, and range of styles and sources. This is exactly what Trader Joe's capitalizes on. Adrian Weidmann, Principal, StoreStream Metrics says, "When you go to Trader Joe's, you are experiencing a 'story.'" Trader Joe's is a brand that is very good at storytelling and bringing that story to life. He contrasts it with the 'typical' grocery store that he calls "merely a clean warehouse." And with surprisingly low prices, and unequalled trust in their private brand (which 80% of their coffee offerings are), the program offers a tight, but rich array of tiered offerings, price points, and innovation.

Shoppers are increasingly interested in "trying something new," but appreciate guidance in the process. Perhaps one of the best ways to invite trial is to offer a sample. Trader Joe's always has freshly brewed coffee available at the store's sampling station, which is a key stop along the way as shoppers make their way from the produce section deeper into the store.

Upon reaching the coffee aisle, one discovers an array of offerings. The selection is not extensive (Trader Joes offers approximately 10% the number of SKUs as the traditional grocer) but it is well curated. In line with nearly the entire store, the entire section is private brand. In truly distinctive fiberboard canisters, with captivating designs, one instantly trusts that the coffee quality must be commensurate with the thoughtfulness that has gone into its creativity.

**Figure 3.3: Value Curve for Trader Joe's**



**3.2.3 Bed, Bath & Beyond – Beverage Room**

An unexpected retailer on the grocery coffee scene is creating a new highly innovative approach worth keeping an eye on. Bed, Bath & Beyond was among the first retailers to commit heavily to carrying K-cups, largely tied to their deep relationship with Keurig because of their business in brewing equipment sales. This relationship was important for both Bed, Bath and Beyond and Keurig, especially because the former allowed Keurig immense access to its customers when single cup coffee was still a novelty. Today, as grocery and mass retailers expand their single cup offerings as quickly as they can move other items off the shelf, Bed, Bath & Beyond remains a key launch pad for new product releases and exclusive, and value sized cup offerings. But as grocery retailers expand Keurig business and Bed, Bath & Beyond’s position as the “go-to” retailer for cups erodes dramatically, it must reevaluate the approach to coffee.

Bed, Bath and Beyond has remained competitive as a whole, especially in light of increasing competition from Amazon and other online outlets (despite a relative lack of

investment in the online space) (Forbes, 2014). The company is known for its particularly adept ability to meet customer needs with a decentralized management structure, and a unique shopping experience intended to maximize the relatively infrequent store trips in the channel. Bed, Bath and Beyond leveraged these trips recently years by introducing products and “store within store” experiences through acquisitions, e.g., Harmon – the drug store chain – in 2002, Christmas Tree Shops in 2003, and Cost Plus World Market in 2012. The acquisition of Cost Plus World Market allowed Bed, Bath and Beyond access to their quirky and intriguing assortment of international and high trending grocery items. Although this has limited impact across the majority of their 1,000 stores, it has significant impact in its seven (and growing) “Gourmet” stores across the country, featuring a store-within-a-store food and beverage set, with a wide array of the World Market renowned selection of eclectic offerings. In some stores, samples galore (even wine) have brought success and ongoing learning in consumables. The company opened a new concept recently at its Paramus, New Jersey location, bringing additional focus to beverages.

Bed Bath & Beyond is currently testing the “Beverage Room” concept and is pleased enough with its success to be planning two additional stores within the next year. In this room, different brewers and brewing methods are available with a variety of coffees to sample and enjoy. Knowledgeable sales associates are available to discuss and help the customer explore options. Bringing this level of discussion and knowledge to the home brewing process – not to mention – high value brewing machine sales to a retailer shows a deep commitment to the segment by the retailer. Even if the Beverage Room may not be replicable in the grocery setting, it offers insights as to how to create a higher level of

engagement and enjoyment around the product they are selling, and the experience, which is demonstrating a factor for success.

Bed, Bath & Beyond's differentiation strategy, as shown by the strategy map (Figure 3.3), comes throughout the spectrum. With distinctive offerings, such as Limited Edition products including pure Kona and Jamaica Blue Mountain priced at \$35 per box – which translates to over \$2 per unit – as well as exclusive value assortments, Bed, Bath and Beyond gives customers good reason to pick up a selection of K-cups during any store visit. The threat posed to the traditional grocer is dampened largely by customers' relative infrequency of trips. That is combated by the regular 20% off promotion program referenced above, which has become a standard in the industry. Shoppers anticipate regular receipt of the oversized postcard with a 20% off offering on a regular basis. In-store conversations show that shoppers will save their coffee purchases until they receive one of these 20% off coupons. Forbes (2014) reports that with use of the coupons (and balancing shipping with taxes), Bed, Bath and Beyond pricing is 15% lower than key competitor Amazon's. In the case seen in store, single cup coffee was the only purchase being made, but research and longevity of the program suggest that more often than not, other items find their way into the cart as well.

A high level differentiation from the traditional grocery store experience occurs in the promotion and placement area of the strategic map. Bed, Bath and Beyond has a unique environment to work with, with cross-merchandising, and creative store formats to experiment with, and they take full advantage of it. The beverage room concept appears to be the ultimate retail coffee experience. It gives the shopper the opportunity to sample different brewing formats and try different coffees. This merchandizing strategy elevates

the customer's knowledge and improves her experience in ways that ensure her immersion into the program, increasing the probability that she would not only purchase the product but purchase it often.

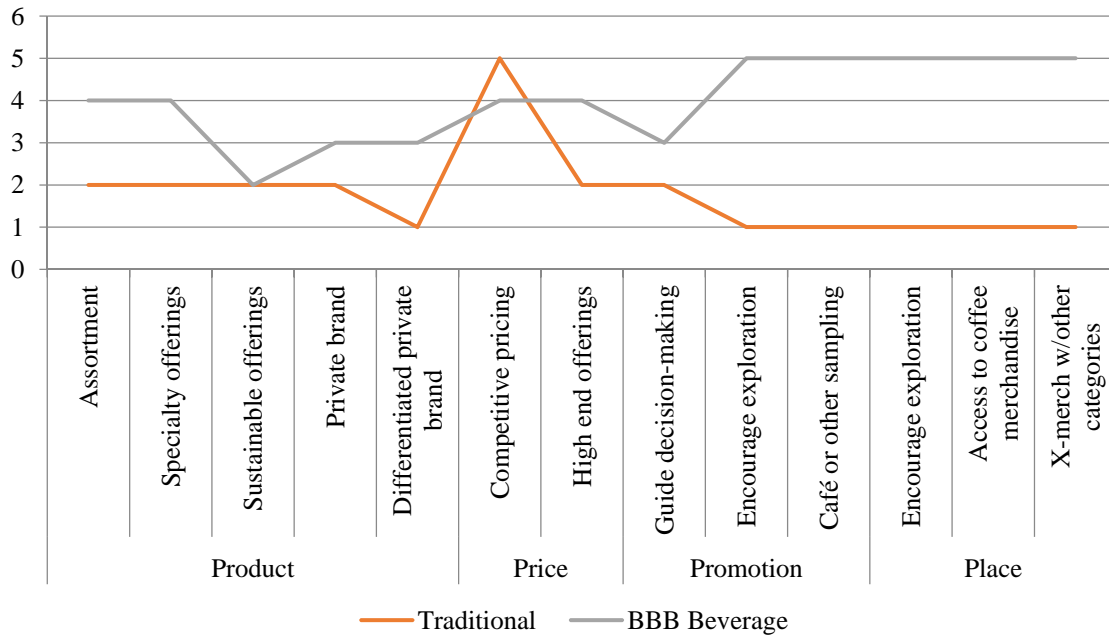
Although single cups have been a focus in the stores for years, bags are only beginning to make their presence known in the stores. The offering is currently limited primarily to gourmet stores and Bed, Bath and Beyond's Beverage room. Yet, Bed, Bath and Beyond is using World Market's extensive private brand offerings to expose and enhance its customers' knowledge about these unique products. Since Bed, Bath and Beyond does not strive to capture the coffee shopper in the same way the grocer does, they do not need to replicate the activities of either their grocery store or café restaurant retail store offerings such as those presented by standard national brand owners such as Starbucks, Dunkin Donuts, Eight O'Clock.<sup>3</sup>

Creative merchandising tactics are also being used to leverage their core business – sale of brewing equipment. In an unprecedented move, which seems to ensure no one buys a brewer without picking up a bag or box of coffee to use with it, grocery products are being piloted in the store area where brewers are featured. It remains to be seen if this type of creative cross-merchandising breaks the elevated experience out of the Gourmet Stores and Beverage room, and to the people where they are shopping

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<sup>3</sup> It should be noted that this analysis is focused on the innovative Beverage Room concept, not the traditional Bed, Bath & Beyond stores. In these store, the traditional national brand single cup offerings are the mainstay of the coffee program, and face increased competition from the grocery and mass channels.

**Figure 3.4: Value Curve for Bed Bath and Beyond's Beverage Products**



### 3.2.4 Synthesizing the Specialty Retailers' Approach

An overlay of all Specialty focused retailers' Strategy Maps demonstrates their distinction from the Traditional grocery benchmark in all Critical Success Factors along the Value Curve, with the exception of price. The retailers have markedly different approaches to building standouts, all of which demonstrate success in the market in their own way.

Whole Foods and Trader Joe's are the standouts in the Product category – in very different ways that seem critical to capturing purchases. Why dedicate shelf space to low-margin national brands which are available at nearly any store nearby. These retailers are building distinctive offerings which are easy for shoppers to grow attached to for their engaging brands, high value proposition, and unique blends. The retailers are willing to commit to sustainable offerings, and to telling the stories about them in order to fully capitalize on these attributes. Coffee is a product which exclusively originates in developing countries, where low prices have created depressed living conditions for farmers for generations. These stories increasingly resonate with shoppers, who are

interested in – and often willing to pay more for - products that taste good, and “do good,” and not just in the specialty foods segment.

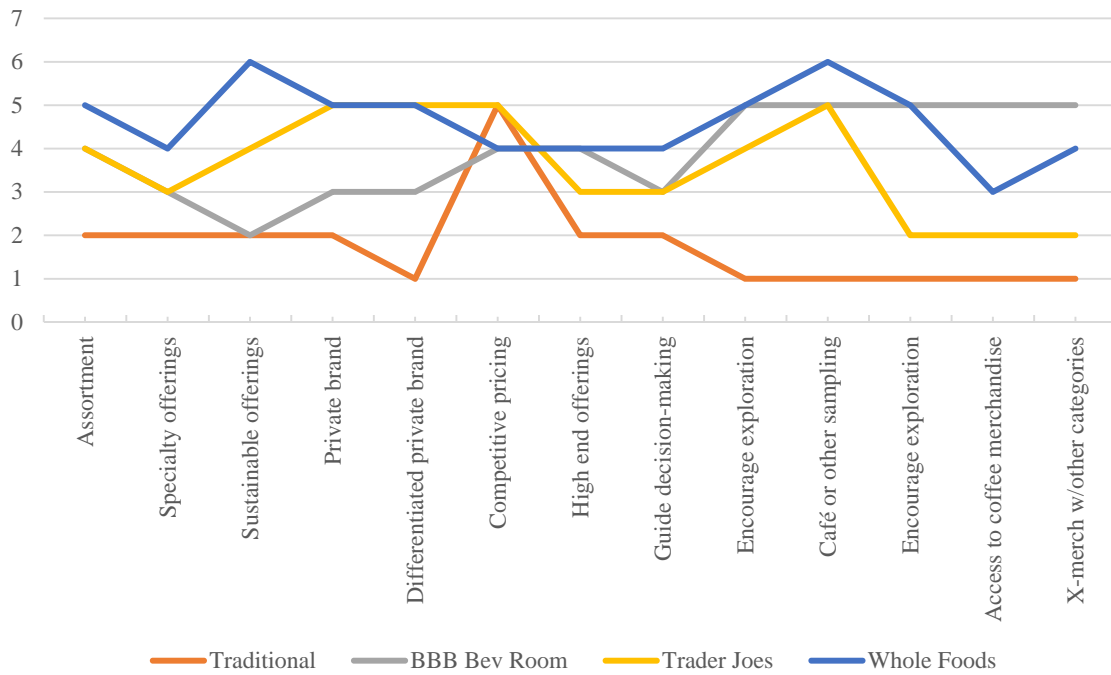
Price may be considered a factor for success in different ways for these retailers. All of the retailers price the expected national brands, as well as their private brands – when applicable – aggressively. With National brands, this is very much promotion-driven, compressing retail margins, but capturing the valuable coffee sale. At Bed, Bath & Beyond, as mentioned earlier, we see that customers’ willingness to pay more for better coffee (but still getting a good price for what they are getting), and they are getting their needs met by these specialty retailers. With Peet’s being the only significant national brand with a price point over \$11, as well as the only one showing positive year-on-year growth (Nielsen, 2014), this price point is one that will leave money (and margin) “on the table” as an unmet need if it is not offered by a store.

It is the areas of Promotion and Place which really show opportunities for retailers to elevate a coffee offering. All three specialty retailers profiled show a significant commitment to these areas of differentiation, in very different ways. Trader Joe’s, with its store format a fraction of the size of the traditional retailer, has a lower opportunity to utilize beyond the aisle merchandising tactics as a traditional Bed, Bath & Beyond or Whole Foods. However the coffee is on regular rotation, to be featured in its always-engaging cross-merchandised endcap displays, and is always available for sample at the well trafficked sampling station. These companies use free-standing merchandisers to feature limited-time-offerings (at the end of the coffee aisle) or whimsical can formats (seen in the bakery section). Most of these features highlight their private brands, the shining stars of these retailers’ selections.



Bed, Bath & Beyond operates its Beverage Room concept as an entirely specialty foods experience, as opposed to an element of need-based grocery shopping. It, therefore, brings this high level of interaction with the product to an unexpected new store format, driving engagement, and – while early in its life – a commitment to growing the concept, leading to increased sales across the store.

**Figure 3.5: The Strategy Canvas of Specialty Retailers**



### 3.3 High Value Retailers

With coffee’s specialization having appeal that is as far-reaching as the gas stations, McDonald’s and similar QSR restaurants who have undertaken the “Breakfast Wars”, as referenced earlier, it is clear the higher quality coffee experience has been fully embraced by the mass market. With this growing appreciation also comes a growing desire to achieve this higher quality coffee consuming experience at a more affordable price.

Again considering the shift in thinking about coffee prices from by the unit (36 oz. can of Folgers coffee costs \$11) to the pound (\$10-14). Now, entering the \$4 latte, and the increasing presence of K-cups comes the increasing awareness of price per cup. While McDonalds helped popularize its McCafe program by challenging Starbucks asserting that “Four bucks is dumb,” the democratization of fresh, quality coffee intensified.

As food service rapidly elevated its offering to quality and value-focused coffee drinkers, retailers have done the same, capitalizing on the trends. Many of the strategies employed mirror those of the specialty retailers, but apply them in grocery environments delivering the retail equivalent of the democratized high quality coffee experience, designed for at-home consumption.

### ***3.3.1 Target***

Target has been a retail innovator in ways large and small for decades. Primarily focused on home goods and apparel, an early breakthrough was partnering with world renowned architect Michael Graves who designed a teapot and line of housewares that belied the company classification as a discount store. With that, the concept of “Design for All” became firmly embedded in the company’s value proposition to middle class consumers. Interestingly, no other retailer has been as successful as Target in capitalizing on this new genre of product development. Design partnerships with top designers, even the ultimately exclusive Neiman Marcus, and Missoni – which crashed their website and sold out in hours - brought previously unachievable name brands to shoppers across their almost 2,000 stores.

Target’s positioning at the high end of value has been met with mixed success from the financial world of late. Currently Target revenues were down 1% in 2014 to \$72.6B below the prior year, with same-store sales in the challenging position of being down an

average of 4.7% (Malcolm, 2014). This is partly attributed to a security breach of data systems during the 2013 holiday season, but also due to Target's positioning. Somewhere between Wal-Mart's extreme discount position and Trader Joe's high-end value, analysts believe there may not be sufficient crossover to maintain Target's competitiveness. Nonetheless, Target continues to push for innovation and growth, a recent one is Grocery. In 1995 Target began expanding its "Super Target" and then "P-Fresh" concepts of grocery-store-within-a-store. This emerged in light of the success of Wal-Mart's (Grocery). Today, with Wal-Mart as well as the Dollar channel's heavy investment into grocery, Target has faced a tight market surrounded by emerging grocery channels. Despite this, grocery continues to grow, expanding from 16% of sales in 2009 to 21% in 2013.

Target carries its strategy of anchoring a department with a range of leading national brands as well as its own private brand assortment into grocery. It has made significant efforts to win by distinguishing its grocery aisles, with a tiered approach offering high value basics, naturals and organics and a top tier. This top tier, Archer Farms takes an approach much in the way Trader Joe's has done, with products that are at once high value, offer unique and gourmet-inspired flavor combinations, and quality that belie the price.

As it has done with its Archer Farms coffee line, Target has made efforts to create a private brand that covers the basic flavors that would serve as an alternative to the key national brands (Donut Shop, French Roast, Colombian), but has an expanded assortment in product categories that do not have as much competition from the major brands on the shelf. The assortment is deep with flavored coffees, which in many brands are limited to the top, Vanilla, Hazelnut and the occasional Caramel variety. Target's line dedicates

approximately a third of the assortment dedicated to unique and unusual flavors, as well as a gift-worthy feature merchandized in its separate seasonal section, so there is distinction that can lure shoppers to the private brand line, and keep them experimenting.

A portion of the assortment has been dedicated to Organic and Fair Trade coffees. With success in the area, Target has also been a leader in marketing the lesser known concept of Direct Trade coffees. Direct Trade is presented as the height of supply chain sustainability, through which buyers pay a premium, commensurate with the quality of the coffee, and increasing as quality increases. Advertised as the “first major retailer” to sell Direct Trade coffee, the product is typically found in smaller, boutique roasters who directly source all of their beans themselves. Innovative in the areas of quality and supply chain, Target has sourced coffees of the pinnacle of quality so much so they may also be put to market through “Cup of Excellence” auctions by their countries of origin. Priced far too aggressively to be highly profitable for the caliber of coffee presented, Target offered this as the ultimate “halo” element to its program, educating its shoppers and sharing with them perhaps the best product they could find in not only the store, but the category.

Along with a unique product offering, Target has presented a continued commitment to enhancing its “Guest” experience. Many retailers may bring incremental changes, which can elevate the shopping experience within the construct of the typical store aisle format. Target in some areas has taken dramatic steps. Their Health & Beauty section is a key example. Dramatically redesigned in 2012 the aisle was completely reconstructed with designer store lighting, wide aisles, store-within-store sections featuring key celebrity partnerships and expanded endcap displays with unique, slow shelves with shape and dimension that invite exploration.

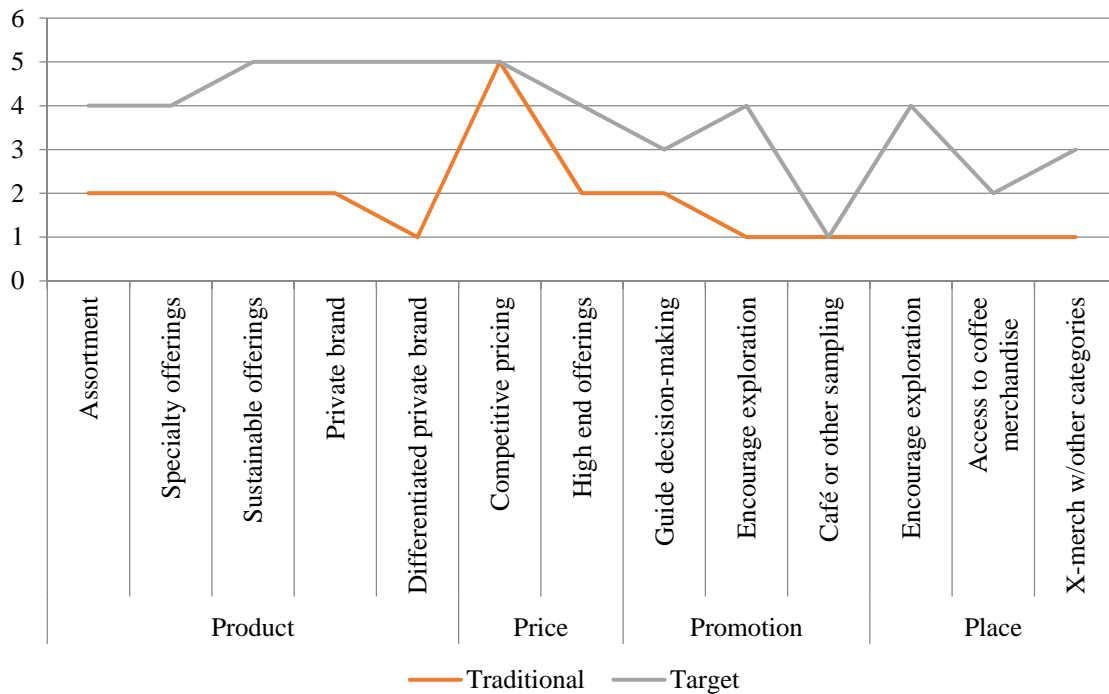
Most coffee sets employ brand blocking as their primary merchandising strategy. This plays well into many customers' shopping habits, in which they have between two and three different selections from different brands from which they choose between. But which one they ultimately choose is often based on which is on sale. Brand-blocking is most commonly employed by commodity items (canned vegetables, mustard, etc.). Perusing the wine or craft beer sections, or a specialty cheese rounder, however, reveals that these distinctive products are being presented in a more sophisticated manner. By grouping like items (all Italian Wines, IPA's or Brie-like cheeses), a shopper has the opportunity to find a particular segment she is drawn to, and to take a moment to explore the offerings. For example, a Starbucks French Roast purchaser would in this merchandizing initiative, discover three other dark roasts in the familiar location of the Starbucks French Roast. These new offerings would also be presented at higher price points. The Colombian coffee enthusiast may, on the other hand, find a sign near their product aisle that said, "If you like Colombians, you may also like these selections from Brazil (or Peru)" In this age of increasing explorations in gourmet food products and flavors, this introduction may be all a customer needs to elevate her perception and trust in the store, and build a halo on the section.

Target has tested this concept in its coffee aisle, only segmenting by coffee roast level. The coffee set was arranged by shelf, with Light, Medium and Dark roasts, as well as flavored coffees segmented. Organics and other high-end items were placed on the top shelf (literally), commanding the halo effect they bring to the set. This set may have had limitations, as it has since been abandoned. Possible challenges may be the need to align shelf space with assortment with labeling by shelf – which may not lead to an optimal

product type distribution. Also, limited efforts to communicate about the unusual arrangement may have brought customer confusion – or at least not clarity around the intention. Starbucks has taken a similar approach in its stores, even going to far as to brand its roast types (“Blonde” roast is not standard industry terminology). Shelf talkers clearly define and describe the qualities of each segment on its shelves. But space and corporate mandates – if not cost – typically limit or prevent such communication in traditional retailers. Such dialog never appeared at Target, but they continue to bring fresh thinking to the coffee aisle in an effort to optimize the category.

Target reverted to a traditional, brand blocked merchandising approach to their bagged coffee, but has taken other steps to encourage exploration in the aisle. Capitalizing on the shopper’s propensity to peruse the wine section, as opposed to come with a type in mind, grab it and go, Target arranged coffee adjacencies next to wine (instead of the usual placement next to cereal and pancake mix). In an interesting move, Target is aligning its distinctive Price and Product focused section like “perusable” specialty focused categories in a way that may serve to increase time and exploration in the aisle, promote engagement, and enhance the experience.

**Figure 3.6: Target's Value Curve for Coffee**



### 3.3.2 Fred Meyer – Hawthorne

Fred Meyer is a subsidiary of traditional retailer Kroger. It was founded in Portland, OR in 1922 and pioneered the one-stop shopping strategy that has expanded to where it now has a full line of grocery in its stores in Oregon, Washington, Idaho, and Alaska. It merged with Kroger in 1998 and its Portland, OR headquarters now serves as Kroger’s western region headquarters. Despite its merger with Kroger, Fred Meyer has continued to operate under its own brand, a strategy that offers the whole Kroger family of retailers a unique opportunity for its traditional retailer systems to experiment with innovative merchandizing strategies.

There are about 15 Fred Meyer stores in coffee-centric Portland, OR. Located in a very gourmet food-aware neighborhood, its Hawthorne Boulevard store has been experimenting with innovative merchandizing of coffee and coffee products. One such initiative involved placing a merchandiser and a small refrigerator at the end of the coffee

aisle. The presentation features local favorite Stumptown Coffee's Cold Brew Ready to Drink (RTD) beverages right where coffee enthusiasts may be shopping already, or may be lured to stop if they were going to pass by the aisle, and the cooler happens to catch their eye.

We have watched in recent years as the pet category has taken the aisle refrigeration concept to the mass market to support the rapidly-growing phenomenon of highly perishable high-end pet food. Bringing iced coffee to the coffee aisle can serve to create a coffee destination within the store for the variety of products being offered. It also serves to keep coffee "in coffee" as the current structure has would-be coffee purchasers in the dairy or beverage buyer's domains within the stores. The further benefit of fresh pet food has been that short shelf life proves to drive repeat trips (Gallagher, 2011). A "destination" within the coffee aisle with refrigerated product may similarly help drive repeat purchase of coffee for brewing as well.

Fred Meyer Hawthorne is also experimenting with unique cross-merchandising strategies throughout the store. Another local roaster has a selection of local bulk coffee in wooden barrels and a free standing merchandiser located near a newly expanded produce and grab-and-go prepared food areas. With this high visibility, the roaster can gain additional eyes, through an inviting display, in the middle of an engaging, diverse section that invites exploration and a more impulsive purchase.

As mentioned, Trader Joe's uses shelf talkers not only in wine, but throughout the store to tout stories of interest and staff recommendations, including in coffee. The wine section has perhaps done the best job of helping facilitate the process, with shelf talkers touting high point ratings. Kroger's Fred Meyer does this as well, and even has a Wine Steward in each store, with not only store-level buying responsibility, but to serve as a



resource for shoppers looking for guidance in making their purchases. Similar methods employed in the coffee section could serve to elevate and guide the decision-making process for this high value and critical product.

Starbucks has piloted an elevated treatment of the coffee aisle in a handful of Kroger (and Safeway) doors in recent years (Tepper, 2013). An end piece brings the look and feel of a dark-wooded, warm coffee shop, Starbucks’ bags, K-cups, and instant Via sticks are consolidated in one place, together with a Keurig machine for sampling. Far beyond our conventional view of brand blocking, the “Signature Aisle” absolutely brings that “moment” when coffee is enjoyed with friends into the center store, and would likely help motivate the Starbucks customer to forego the extra stop, and peruse the extended selection being featured.

**Figure 3.7: Fred Meyer's Value Curve with Respect to Coffee**



What is notable about the Fred Meyer Value Curve is how closely it mirrors the benchmark “traditional” retailer. Although this retailer is making significant changes to its

Product offerings, it is largely doing so within a very traditional framework. Namely, while it is investing in bringing in higher end offerings, the biggest distinction is Place – cross-merchandising primarily. With the growing array of coffee products, doing this raises visibility, and creates unique and interesting shopping experiences. Fred Meyer still has a way to go to distinguish its Product offerings and Prices including for its private brand, but is presenting these basic items in good company, perhaps with the expectation that the elevated experience around specialty will serve to enhance the business overall – even where the experience is mundane.

### **3.3.3 WinCo**

WinCo Foods, Inc. was founded in 1967 and has its headquarters in Boise, ID and stores in Arizona, California, Idaho, Nevada, Oregon, Utah, Washington, and Texas. As of March 2014, it operated 93 retail stores and four distribution centers – two in Oregon and one each in Idaho and California. WinCo purchases directly from manufacturers and from farmers as a strategy to reduce its operating costs. It also is a no-frills operator, offering no bagging service or accepting credit cards.

Despite its no-frills operations, WinCo Foods has one of the most successful coffee programs in the country at the moment. Billed as “neat and clean, but basic” (Tuttle, 2013), WinCo has been able to parley its low cost operations into high value proposition to its very loyal customers, presenting a competitive price. Indeed, WinCo, who has been called “Walmart’s worst nightmare” by Strategic Resource Group’s retail expert Burt Flickinger III, has been able to bring top notch product and merchandising concepts into the extreme value category.

WinCo’s coffee program is dominated by its own brand, Cascade Pride. The brand has over thirty SKUs in bulk, the best sellers of which are also in bags. Highly differentiated

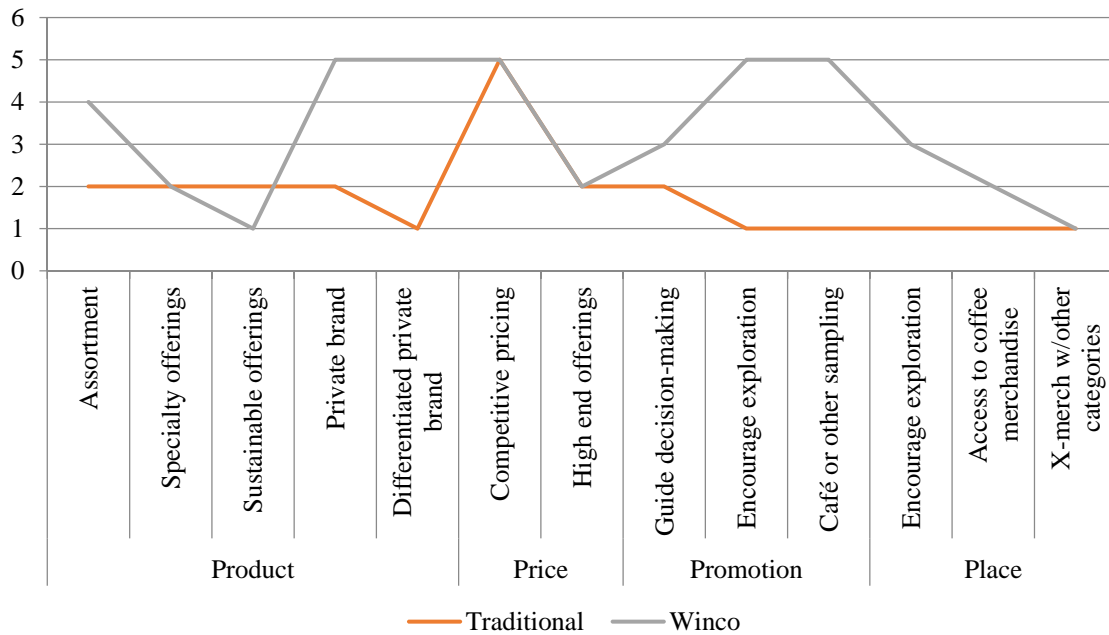
on coffee roasts and flavor offerings, it also over-delivers at a lower premium price point on specialty quality Arabica coffee – at an equivalent per pound price that is lower than Wal-Mart’s Sam’s Club brand. So, once customers try and trust it, they are motivated to repeat purchase. The key being that these coffees are found nowhere else, so truly create the “coffee destination.” With coffee sampling occurring on the store floor regularly, shoppers get an understanding of the quality, and of course gain trust. It cannot be underestimated how rare this is for a regular grocer to execute well, much less one with such focus on price. Being able to sample well requires great attention to detail in brewing method, cleanliness, and freshness standards. For WinCo to do so is commendable. And with the coffee section’s primary presence at the store’s heavily traveled perimeter, next to of course produce, but also WinCo’s second-to-none bulk section, it further benefits from the “freshness appeal” of the store perimeter. Deeper within the store aisles is a selection of canned and instant coffee and key national brand bags, to satisfy needs of the range of customers. But it is limited, and gives the impression its presence is there simply because it cannot be without.

WinCo is a leader in the industry, not only in their coffee program basics, but they have developed impactful programs that bring incremental sales, even once the shopper has gained trust in the program and in their brand. An exemplary program they pioneered is a seasonal rotational program, implemented by the store approximately four years ago. Today, no stores shelf is complete without the obligatory Pumpkin Spice during the fall season, but WinCo elevates the concept exponentially. Capitalizing on market trends which show that nearly a quarter of the population drinks flavored coffee, and that while Vanilla and Hazelnut remain mainstays of the flavored coffee world, they are being trailed by higher growth flavors, which include Chocolate, Caramel, and of course, variations on the

Pumpkin. What is interesting to note is that the highest growth flavor is not an individual flavor, but the category comprised of the “other” flavors which are not significant enough of stand by themselves.

WinCo Foods’ flavor program focuses on a very well-defined consumer segment – lower-income Hispanic consumers – who have been shown to prefer sweet and dessert flavors. The company presents three new flavors every quarter. The flavors are merchandised off shelf, and repeated yearly (unless they underperform in which case they are replaced). The certainty of the presentations has created anticipation among shoppers, who await the return of their favorite flavors each year. Flavors that do not come back are requested by customers who had an affection for it. The commitment created by the program ensures incremental purchases of coffee in the store, increases trips and enhances loyalty to the point of fanfare.

**Figure 3.8: WinCo's Value Curve for Coffee**



### ***3.3.4 The High Value Retailer Approach***

An overlay of the High Value Retailers coffee programs reveals much less of a common thread between strategies, which distinguish the coffee programs in the segment. Not surprisingly, price is a common point where all score high in their Value Curves, but the other areas of distinction vary widely with each retailer's strategy canvas, demonstrating creativity needed to build a successful specialty program within the segment. However, when the right strategy is employed at the right time, not only the coffee program, but the store overall benefits from elevated perception, and performance.

As discussed, of the three Value Retailers behaving most like a Traditional retailer, the Fred Meyer Hawthorne store leverages methods at the individual store level to elevate its coffee program, rather than taking a universal approach for the banner, at this juncture at least. They use such innovative programming as the introduction of the Murray's Cheese Shop across Kroger stores – discussed below – elevating the cheese shop experience to boutique-like nation-wide. Perhaps due to hyper-local targeting, its efforts to distinguish, largely in the Product and Place Success Factors, serve to expand the coffee business by both extending the offering to reach and convert core coffee buyers who may not otherwise be inclined to buy coffee at grocery retail (opting instead for coffee or strictly specialty shops) in the food-and beverage-centric neighborhood. This strategy aggressively strives to convert coffee shoppers in the area, by engaging them with coffee in the store's perimeter with local, and well-regarded brands, as well as its own private brand. The Fred Meyer coffee selection does reach the core specialty coffee buyer looking for the highest price point in specialty coffee with Product distinctions featuring local third wave favorite, Stumptown. Coffees such as these have not previously been available in traditional grocery stores, so this truly expands the number of shoppers willing to buy in the store. This is bold

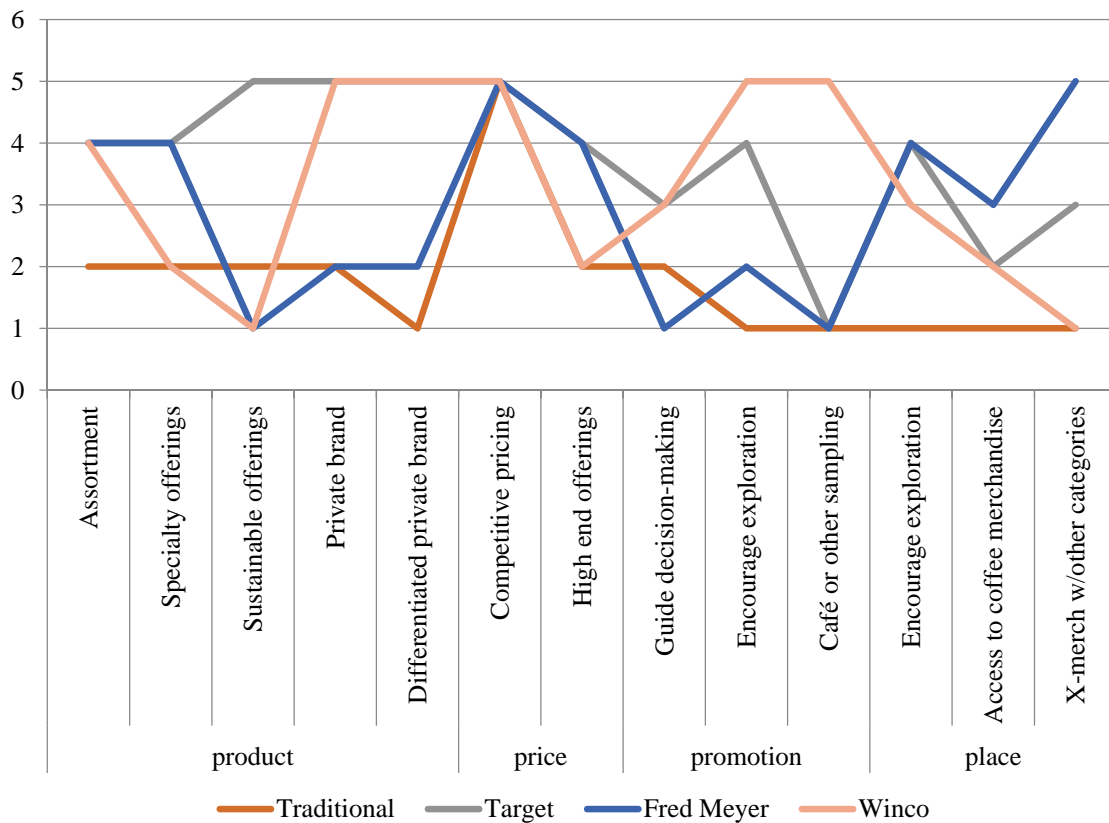
move for a retailer at this tier, but one that is proving welcome by shoppers, given the number of out-of-stocks often seen on the store shelves during the early days of its presence.

Target also satisfies growing specialty demand, but with a “super-premium” and sustainable offering within its own private brands. As Target’s positioning as a grocery retailer is not mature (informal research reveals that Target does not come to mind as a place to buy coffee), so it brings a different approach to its grocery aisles. Target introduces a halo to its coffee aisle through its Archer Farms private brand by introducing “Direct Trade” and “Cup of Excellence” award winning coffees, which are typically featured in the finest third wave shops, distinguishing its program on Product and Price. In contrast to the Stumptown shopper at Kroger, Target’s offering seeks to encourage a shopper already in the aisles to “trade up” and build loyalty through these special programs, which over-deliver on quality for a shopper who would most likely be looking for a more familiar national brand. Introducing such innovative, and highest quality coffees bring credibility to the offering, and the Archer Farms line, and introduces an exceptional coffee story, which is typically only told through a high-end coffeehouse experience. WinCo shows a highly differentiated Value Curve in areas of Product, Price and Promotion through its innovative private brand selection and seasonal programming, unlike Fred Meyer and other traditional retailers, which are beholden to the very average private brand selection used company-wide.

All three innovative Value Retailers leverage one set of tools they have that does not impact margins to extend coffee’s presence beyond the coffee aisle and serves to convert shoppers who may not otherwise come into the coffee aisle – Place. Each of these

retailers creatively uses off-shelf and cross merchandising strategies extensively to capture interest in the high priced item in various areas of the store. Target does it in its Brewer aisle, WinCo by placing coffee near its heavily traveled bulk section, at the store’s perimeter, and Fred Meyer Hawthorne does it in a wide variety of ways as discussed. These tactics seem as promising as any in the effort to capture shoppers’ attention to coffee using disruption tactics and have them see coffee in the store as not just another item on the shelf in the center store “morgue.”

**Figure 3.9: Strategy Canvas for High Value Retailers**



## CHAPTER IV: SYNTHESIZING THE CASES

### 4.0 Overview

In the foregoing discussions, we presented the Value Curves of a select number of retailers whose activities could provide insights for traditional retailers looking to enhance their merchandizing and positioning of coffee in their operations. We also synthesize the foregoing case studies using the value curves to identify potential strategies that are currently missed opportunities for traditional retailers. Currently traditional retailers are using a dated approach to merchandising the coffee aisle, and cannot afford not to look at ways to distinguish themselves in order to expand their market boundaries through value innovation to translate changes successfully in the coffee market. Because of their scope, the growth trends identified in this research – in particular higher quality, Keurig K-cups and the RTD segment, appear to be macro-trends, rather than simple new product introductions. Only by translating these shifts into strategies will traditional retailers ensure the value of their coffee categories will be fully realized. Traditional retailers may have a variety of tactics, and should employ those best suited for their shopper, product and pricing strategy, that will best capture – and keep – their shoppers' coffee purchases in the store.

Looking to Specialty minded retailers, a broad array of strategies come to market, offering shoppers a variety of coffee options to choose from, which is what consumers are seeking in the changing market. Strategies employed cover Product – with a range of price points offered, and variety in flavors and new formats including K-cup and RTD. These retailers across the board make the shopping experience to encourage exploration, through the Promotion and Place methods such as sampling, or creative merchandising methods in



store-within store concepts and cafes, thus inviting exploration of the program or private brand, and hence building loyalty.

Value-focused retailers consistently compete on price in their coffee sets, but offer opportunities to consistently diversify their offerings, and distinguish it in more than one area. Successful programs have invested heavily in either product distinction (WinCo) or innovative Placements (Fred Meyer-Hawthorne) throughout the store. They may be constrained in other areas, due to their strategies, but offer best-in-class solutions for engaging shoppers using unique approaches.

#### **4.1 Beyond the Coffee Aisle**

There are strategies beyond the current treatments of the coffee category presented here that may ultimately provide the case study that the opportunity to capitalize on the changing coffee market is sufficient to drive significant changes. Select stores offer innovative approaches, and evolutions in other categories are detailed below, which may serve as inspiration.

There is opportunity for a store-within-a store to be expanded to include coffee with other high-end specialty items within even the traditional grocery store, creating the occasion for these elevated purchases all in one section of the store. This would not be unlike Kroger's treatment of their natural and organics as a separate department. Roche Brothers in the Northeast has taken this approach, creating a gourmet specialty focused area, prominent near the store's entry. It has become a prime location where new and exciting entrants to the specialty assortment are presented to shoppers in an elevated way, and are typically expected to sell-through initial quantities rapidly.

Wine and cheese are clear examples of categories that have undergone significant shifts in merchandising in reaction to the products' specialization over the past two

decades. The wine aisle – or section – may now be often treated more like a wine shop (in states where wine is permitted for sale in grocery). It will often have shelf talkers or other forms of signage to serve as guides in the buying process, and the assortment has been expanded into much higher price points, to serve a wider variety of dining occasions, bringing a halo to the selection. Best-in-class retailers take this further as they design programs to educate the shopper, and enhance the shopping experience to encourage exploration. Mariano’s of Chicago has a section of dark wood and lighting to create a premium feel, and offers an extensive selection. Televisions in the section feature winemakers sharing background on the winery’s story and production. A stylish tasting bar offers complementary samples. Such activities transform the perception of buying “grocery store” wine, as the experience rivals that of best-in-class wine shops.

Grocery retailers have undergone a sweeping change to the cheese section – a transformation that can be seen throughout the broad market. Today, all but the most extreme value-focused retailers feature a separate section where artisanal types such as Camembert, Blue Cheeses and Feta live, typically near the perimeter with bakery breads, deli meats and olives which accompany them – and far away from the cheese aisle’s “morgue” with commodity cheese sticks, cream cheese and Mexican shredded cheese. By elevating the product in such a way, and cross-merchandising with related products, the opportunity for increasing the occasion-based purchase is great.

As referenced earlier, Kroger recently acquired specialty cheese retailer Murray’s Cheese, and has begun to build them out in store-within stores nation-wide. Murray’s features more than 175 cheeses, including dozens of local varieties, categorized by type or functionality, such as bloomy, washed rind, blue, grate/crumble, melting, and cheddar. The

cheeses arrive in whole wheels, ready to be cut and packaged in-house. Trained cheese experts manage the counter, offer samples, answer questions, and recommend pairings.

As part of Murray's commitment to educate customers, Murray's at Fred Meyer will offer classes on selecting cheeses, crafting a cheese course, and wine and cheese pairings. The store will also host "Meet Your Local Cheese Maker" events, giving customers the chance to connect with some of Oregon's biggest names in cheese. Engaging consumers in the department will no doubt introduce new items to try – some of which, hopefully, will lead to repeat visits and purchases.

#### **4.2 Conclusion**

As a key trend in the coffee industry is that the market has evolved over the past 60 years reflecting the drive toward drinkers increasingly seek better quality coffee experiences. New products such as third wave bagged coffees, single serve K-cups and RTD formats have entered the market and having a significant impact, both converting current drinkers, and expanding to new ones, so we see the coffee market at once expanding and shifting. As these segments continue to increase their share of coffee purchases and drive the category's growth, the traditional grocery retail offering is becoming increasingly complex, with disparate locations, elevated price points, and grocery retailers must respond. If retailers do not seek to meet and exceed their new coffee customers' changing expectations, or they will continue to "leak" coffee purchases (and their accompanying shopping cart values) to other channels or to more savvy competitors who are taking steps to deliver on this change in demand.

Retailers may leverage methods being used in the category in the case studies above, or from categories such as wine and cheese which have undergone specialization in niche markets and are now becoming fully embraced at mass. These approaches are no

longer seem optional in coffee – they are critical for keeping pace and maintaining coffee sales as the industry evolves.

Wise retailers – typically outside of the realm of the “traditional” grocery retailer are breaking the molds to differentiate their coffee aisle. Seeing retail sales currently being lost to Starbucks – even at a higher cost – and to Costco – for high quality and high value should be the wake-up call that change is needed to prevent coffee sales from stagnating in the morgue of the center store. The savvy retailers are changing dramatically to offer experiences to educate, encourage exploration, and please the shopper – and to maximize and keep these high priced purchases, rather than risk losing them.

We hope this study will serve to provide reference for cases that have succeeded in differentiating their programs as inspiration, and as the beginning of a coffee retailer’s strategy toolbox, but it cannot claim to know which approaches will bring success within a retailer’s own business model. It is up to individual retailers to evaluate these strategies against their own program, and apply the ERIC principles in the context of their own goals and shopper preferences to identify what methods may add value to their shopper, and to their business.

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