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Original Paper

The U.S. Coffee Market: A Competitive Profile

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Abstract

This paper follows the path of nine studies of U.S. consumer markets: Men's Shaving Gel, Beer, Shampoo, Shredded/Grated Cheese, Refrigerated Orange Juice, Men's Razor-Blades, Women's Razor-Blades, Toothpaste, and Canned Soup.

Porter associates high market share with cost leadership strategy which is based on the idea of competing on a price that is lower than that of the competition. However, customer-perceived quality—not low cost—should be the underpinning of competitive strategy, because it is far more vital to long-term competitive position and profitability than any other factor. So, a superior alternative is to offer better quality vs. the competition.

In most consumer markets a business seeking market share leadership should try to serve the middle class by competing in the mid-price segment; and offering quality better than that of the competition: at a price somewhat higher, to signify an image of quality, and to ensure that the strategy is both profitable and sustainable in the long run.

Quality, however, is a complex concept consumers generally find difficult to understand. So, they often use relative price, and a brand's reputation, as a symbol of quality.

In 2008 the U.S. retail sales for the Coffee market were $3.78 Billion. The market featured five varieties of coffee: Ground, Soluble (Instant), Whole Bean, Liquid, and Flavored. We have focused our analysis on Ground Coffee which had a 70% share in 2008.

In 2008 the Ground Coffee market leader was the Folgers brand family with a market share of 21.8%, *followed by the Maxwell House brand with 11.6%. The pack sizes varied from 1.3- to 52oz, with the 10*-13 oz *packs being the most popular. So, we have focused cluster analysis on this pack.*

The Ground Coffee market was highly competitive. In 2008 it had 450 brands.

Using Hierarchical Cluster Analysis, we tested two hypotheses: (1) That the market leader is likely to compete in the mid-price segment, and that (2) Its unit price is likely to be higher than that of the nearest competition. Employing U.S. retail sales data—for both 2008 and 2007—we found that the *results did not support our hypothesis that the market leader would be a member of the mid-price segment. Instead, the results show that both the market leader, the Folgers flagship brand—and the runner-up Maxwell House—were members of the economy segment, although Folgers' unit price was higher than that of Maxwell House, as we have hypothesized.*

This implies that both Folgers and Maxwell House were following the cost leadership strategy based on lower price than better quality, and treated coffee as a commodity to gain market share. This is truly a stunning result! In all similar nine studies preceding this one, not a single market leader—or runner-up—competed in the economy segment!

The spectacular success of Starbucks demonstrated in no uncertain terms that the consumers were no longer content to treat coffee as a run-of-the mill drink—but rather something special—that deserved to be relished, and for which they were willing to pay a premium price.

Finally, we discovered five strategic groups in the industry.

Keywords

U.S. Coffee Market, cost leadership, price-quality segmentation, market-share leadership, relative price a strategic variable, strategic groups, affordable luxury

1. Introduction

This work follows the footprints of *nine* studies of *U.S. consumer* markets: Men's Shaving Gel, Beer, Shampoo, Shredded/Grated Cheese, Refrigerated Orange Juice, Men's Razor-Blades, Women's Razor-Blades, Toothpaste, and Canned Soup (Datta, 2012, 2017, 2018a, 2018b, 2018c, 2019a, 2019b, 2020a, 2020b).

This research is based on the notion that the path to market share leadership does not lie in lower price founded in *cost leadership* strategy, as Porter (1980) suggests. Rather, it is based on the premise—according to the PIMS database research (Note 1)—that it is *customer*-perceived quality that is crucial to long-term competitive position and profitability. So, the answer to market share leadership for a business is to *differentiate* itself by offering quality *better* than that of the nearest competition (Datta, 2010a, 2010b, 2012, 2017, 2018a, 2018b, 2018c, 2019a, 2019b, 2020a, 2020b).

To make this idea *operational* calls for *two* steps. The first is to determine which price-quality segment to compete in? Most consumer markets can be divided in three *basic* price-quality segments: *premium*, *mid-price*, and *economy*. These can be extended to *five* by adding two more: *ultra-premium* and *ultra-economy* (Datta, 1996, 2012, 2017, 2018a, 2018b, 2018c, 2019a, 2019b, 2020a, 2020b). The answer lies in serving the *middle* class by competing in the *mid-price* segment. This is the socio-economic segment that represents about 40% of households in America (Datta, 2011). It is also the segment that Procter & Gamble (P&G), a leading global consumer products company, has successfully served in the past (Datta, 2010b, 2012, 2017, 2018a, 2018b, 2018c, 2019a, 2019b, 2020a, 2020b).

1.1 The Strategic Importance of Price Positioning

In a competitive market one would normally expect more than one major brand competing in the *mid-price* segment. So, the second step for a business seeking market share leadership is to position itself at a price that is *somewhat* higher than that of the nearest competition in the *mid-price* segment. This is in accord with P&G's practice based on the idea that although higher quality does deserve a "price premium", it should *not* be excessive (Datta, 2010b). A higher price offers two advantages: (1) it promotes an image of quality, and (2) it ensures that the strategy is both profitable and sustainable in the long run (*ibid*).

A classic example of price positioning is provided by General Motors (GM). In 1921 GM rationalized its product line by offering "a car for every purse and purpose"—from Chevrolet to Pontiac, to Oldsmobile, to Buick, to Cadillac. More importantly, GM positioned each car line at the *top* of its segment (Datta, 1996, 2010a, 2017, 2018a, 2018b, 2018c, 2019a, 2019b, 2020a, 2020b).

A more recent and familiar example is the *economy* chain, Motel 6, which has positioned itself as "offering the *lowes*t price of any national chain". Another example is the Fairfield Inn. When Marriott introduced this chain, it targeted it at the *economy* segment. And then it positioned Fairfield at the *top* of that segment (Datta, 1996, 2017, 2018a, 2018b, 2018c, 2019a, 2019b, 2020a, 2020b).

1.2 Close Link between Quality and Price

As mentioned above, *customer*-perceived quality is the most important factor contributing to the long-term success of a business. However, quality cannot really be separated from price (Datta, 1996). Quality, in general, is an intricate multi-dimensional concept that is difficult to comprehend. So, consumers often use *relative* price—and a brand's reputation—as a symbol of quality (Datta, 2010b, 2012, 2017, 2018a, 2018b, 2018c, 2019a, 2019b, 2020a, 2020b).

2. Early History of Coffee

We could not have chosen a better source for this section than Mark Pendergrast's (1999) masterful panoramic book on the history of the coffee industry. So, we have taken the liberty of primarily relying on his work for our coverage of this subject.

2.1 The Islamic World

No-body knows just when and by whom coffee was discovered. However, according to legend, an Ethiopian goatherd, named Kaldi, discovered the magic of coffee when his goats, after eating coffee berries, became so playful that they "danced" (*ibid*, p. 1).

The discovery of coffee by the Ethiopians soon led to its popularity in Arabia as well. From Ethiopia coffee eventually migrated to Yemen (*ibid*, pp. 6-7).

Initially, Arab Sufi monks considered coffee as a drink that would enable them to stay *awake* for midnight prayers. At first, coffee was considered a medicine or a religious aid, but soon it became a part of *daily* use (*ibid*, p. 6).

By the end of the fifteenth century, Muslim pilgrims had introduced coffee to the Islamic world that included Persia (Iran), Egypt, Turkey, and North Africa. As a result, coffee became a *lucrative* commodity for trade (*ibid*, p. 6).

Throughout the sixteenth century coffee's popularity grew in these countries. Nevertheless, it also acquired a *bad* reputation as a *trouble*-making social drink. So, the governor of Mecca ruled that coffee, like wine, must be outlawed (*ibid*, p. 6).

Yet, coffee drinking *persisted* in Arabia despite government persecution faced by the early Arab societies. It is interesting to know that coffee was such an ingrained part of Saudi Arabian society that failure by a husband to provide coffee to his wife could be a ground for *divorce* (Rotondi, 2020)!

So, what explains this paradox? One reason: the *addictive* nature of caffeine. The other is that coffee provided "an intellectual *stimulant*: a pleasant way to feel increased *energy* without any apparent ill effects" (Pendergrast, p. 7, *italics* added).

Ottoman Turks conquered Yemen in 1536. Soon coffee *beans* became an important export all across the Turkish Empire. The coffee beans were exported from the Yemeni port of Mocha. Thus, the coffee from that region began to be known as *Mocha* (*ibid*, p. 7).

2.2 Coffee Cultivation Spreads to India, Sri Lanka, Indonesia, Caribbean, and Brazil

Since the coffee trade had become quite profitable, the Turks jealously guarded their monopoly over the coffee tree cultivation in Yemen by imposing strict restrictions on exporting fertile berries. However, sometimes during the 1600s, a pilgrim managed to smuggle seven seeds out by taping them to his stomach, and was able to successfully cultivate them in the mountains of Mysore in Southern India (*ibid*, p. 7).

In 1658 the Dutch began growing coffee in Ceylon—Sri Lanka. In 1699 another Dutchman transplanted trees from Malabar, India to Java, Indonesia (*ibid*, p. 7).

In 1714 the Dutch gave a healthy coffee plant to the French government. A French naval officer *Gabriel Mathieu de Clieu* carried and nurtured this plant all the way from Paris to the French colony of *Martinique* in the Caribbean. Today much of the world's current supply of coffee probably derives from this pedigree (Pendergrast, pp. 15-16).

In 1727 a Portuguese Brazilian officer, Francisco de Melho Palheta, was able to smuggle ripe coffee berries from French Guiana and was able to plant them successfully in his home territory of Para in Northern Brazil, from which coffee cultivation gradually spread southward to the rest of Brazil (*ibid*, p. 16).

During the 1700s *Java* and *Mocha* became the *most* famous and desired coffees. However, Mocha ceased operation as a viable port in 1869 with the opening of the Suez Canal. Also, very little high quality coffee now comes from Java because most of its coffee is the inferior *Robusta* (*ibid*, p. 8, p. 153).

3. Coffee in Early Europe

3.1 Coffee in Italy

In the first half of the seventeenth century coffee was still an *exotic* beverage in Europe, as the rich used it mainly as an expensive medicine. However, over the next fifty years, Europeans discovered the *social* as well as the *medicinal* benefits of coffee (*ibid*, p. 8).

By the 1650s coffee was sold on Italian streets by lemonade vendors, who also sold chocolate and liquor. The first coffeehouse—named *caffe*' after the drink it served—opened in Venice in 1683. Soon, it became "synonymous with relaxed companionship, animated conversation, and tasty food" (*ibid*, p. 8).

3.2 Coffeehouses and the French Revolution

Considering their subsequent love for coffee, the French lagged behind the Italians and the British in embracing the coffeehouses. It wasn't until 1689 that an Italian immigrant opened *Café de Procope* in Paris. Soon, French actors, authors, and musicians began to meet there for coffee and literary discussion (*ibid*, p. 9).

In the next century the *Café de Procope* attracted such *celebrities* as Voltaire, Rousseau, Diderot, and a famous American visitor, Benjamin Franklin (*ibid*, p. 9). However, expatriates like Ernest Hemingway, Gertrude Stein, F. Scot Fitzgerald, and T.S. Eliot regularly met at *Café La Rotonde* (Rotondi).

The French historian Michelet viewed the *introduction* of coffee in France as "the auspicious revolution of the times, the great event which created new customs, and even modified human temperament". An important contribution of coffee was that it led to a *reduction* in alcohol consumption. Second, both *men and women* could, *withou*t impropriety, consort as they had never done before:" meet in public places and talk (Pendergrast, p. 9).

The cafés of Paris, with their social *egalitarian* culture, were a fertile ground for the *revolutionaries* who opposed monarchy. The call to arms for storming of the *Bastille*—the French state prison—originated from Paris's *Café de Foy*. Thus, it was the stimulating *intellectual* environment Parisian cafés offered that eventually led to the *French Revolution* in 1789 (Rotondi, Pendergrast, p. 9).

The Age of *Enlightenment* (also known as the Age of *Reason*) was an *intellectual* and *philosophical* movement that dominated the world of ideas in Europe during the 17th to 19th centuries (Note 2). After the Revolution, Parisian cafés once again became the "haunt of writers and thinkers" (Rotondi).

The French did not like the way the Turks brewed their coffee which was quite bitter. But, soon, the French discovered the joys of *sweetened* "milky coffee", or *café au lait'* (Pendergrast, p. 9).

3.3 Britain Switches from Coffee to Tea

The first coffeehouse opened in London in 1652 triggering a revolution in London society. The coffeehouses became England's first *egalitarian* meeting places. This is because the British culture was quite *hierarchical* and structured at that time. So, the idea that an ordinary person could sit next to a person of importance as an *equal* was quite radical. A notable feature of the English coffeehouses then was that they became places where guests could get together to consume and discuss—and even *write*—the *news*. Thus, the coffeehouses were the *engines* of the news industry in the 18th-century London (Rotondi).

The first coffeehouse opened at Oxford University, England in 1650. It was followed two years later in London. Coffee and coffeehouses "took London by storm". Many regarded them as "penny universities", where for the price of a *penny* one could enjoy a cup of coffee as well as sit for hours listening to extraordinary conversations (Rotondi).

At a time when *beer* was often a safer drink than water, this was no small achievement (Rotondi).

Before the arrival of coffee the British were *heavy* drinkers of alcohol. However, fifty years later coffee drinking had made the British much *more* sober (Pendergrast, p. 13).

Each coffeehouse catered to *different* types of clients. For example, the *Grecian Coffee House* was a meeting place for Whigs, as well as members of the Royal Society, like Isaac Newton. On the other hand, poets like John Dryden, Alexander Pope, and writer Jonathan Swift frequented *Will's Coffee House* (Rotondi).

At *Jonathan's Coffee House* stockbrokers traded shares after hours. This eventually led to the birth of the *London Stock Exchange* (Rotondi).

Edward Lloyd's café mainly served seafarers and merchants. He regularly prepared "ships" lists for underwriters who visited his café to offer *insurance*. And that is how the famous insurance company, *Lloyd's of London* was born (Pendergrast, p. 13; Rotondi).

However, the strongest opposition against London coffeehouses came from the British *housewives*, who, *unlike* their French counterparts—as we have mentioned above—were *excluded* from this all *male* society. One of their complaints was that excessive coffee drinking by men was contributing to their impotence (Pendergrast, p. 13)!

Ironically, over the course of the eighteenth century the British started to drink *tea* rather than coffee. Around this time, the conquest of India by the East India Company (EIC) was under way where the country concentrated on growing *tea* rather than coffee. So, because of its monopoly, the EIC began to push the export of tea from India to Britain (*ibid*, p. 14).

Most of the coffeehouses became private men's clubs, or chop houses—restaurants specializing in steaks and chops—by 1730. As a result of this monumental change, huge public *tea* gardens of this era began to replace the old coffeehouses. These tea gardens appealed to the *entire* family: men, women, and children. Unlike coffee, tea was *easy* to brew, and did *not* need roasting, grinding, and freshness (*ibid*, p. 14).

While the black brew never disappeared entirely, its popularity in Britain continued to decline steadily until recent years (*ibid*, p. 14).

4. American Revolution, Coffee, Sugar and Slavery

After the *Boston Tea Party*, Americans in the colonies began to consider coffee as a *patriotic* drink. The Continental Congress passed a resolution *against* tea consumption. In a letter to his wife in 1774, John

Adams wrote: "Tea must be universally *renounced*" (Pendergrast, p. 15, *italics* added). At that time American taverns served coffee alongside liquor. Daniel Webster nicknamed the *Green Dragon Tavern* in Boston as the "Headquarters of the Revolution" for hosting many meetings that led up to and during the *Revolutionary War* (Rotondi).

In New York *Merchant's Coffee House* was known for its gatherings of *patriots* who were determined to make America independent from the rule of King George III. In the 1780s, it became the place where merchants got together to create both *Bank of New York*, and to reorganize the *New York Chamber of Commerce* (Rotondi).

4.1 The Industrial Revolution and Coffee

The growing popularity of coffee "complemented and sustained" the *Industrial Revolution w*hich started in Great Britain during the 1700s, and spread to the rest of Europe and North America in the early 1800s. With the emergence of textile and iron mills, workers migrated to the cities where they lived in appalling conditions, and earned very low wages. The European *lace* makers in the early nineteenth century lived almost entirely on *coffee* and *bread*. Since coffee was stimulating and warm, it created an *illusion* of nutrition. The drink of the affluent had become the "necessary *drug* of the masses, and morning coffee *replaced* the beer soup for breakfast" (Pendergrast, pp. 16-17, *italics* added).

4.2 Sugar, Coffee and Slavery

By 1750 the coffee tree was growing on five continents. For *low-income* families coffee offered a *pick-me-up* and a moment of respite, although it did not offer much nutrition. More importantly, it contributed noticeably to the *sobering* of an "alcohol-soaked Europe". Furthermore, the coffeehouses became hotbeds of an egalitarian culture that provided a *stimulating* cultural environment. Wherever it has been introduced it has "spelled revolution;" it has been the world's most *radical* drink; and time and again, it has displayed the prowess to make people *think* (*ibid*, p. 17).

Nevertheless, the cultivation of coffee also had a *dark* side, as we have discussed below.

For thousands of years *sugarcane* was a *heavy* and unwieldy crop that was very *labor*-intensive. Over the four centuries following the arrival of Columbus in the New World, innumerable lives were ruined and around 11 million Africans were *enslaved* (Datta, 2020a).

The introduction of coffee to their colonies by the Europeans called for *arduous* labor to grow, harvest, and process it. So, when the French colonists first began to grow coffee plants in San Domingo (Haiti) in 1734, they, too—following the earlier example of sugar plantations—turned to African *slaves* to work on their coffee farms (Pendergrast, p. 17).

By 1788, San Domingo (Haiti) supplied *half* of the world's coffee. Thus, the coffee that "fueled Voltaire and Diderot", as we have pointed out before, was produced by the "most *inhuman* form of *coerced* labor" (*ibid*, p. 18, *italics* added).

5. Coffee in Brazil

During the *latter* half of the 19th century coffee cultivation in the Caribbean was declining. It was *Brazil* which then became the *predominant* producer of coffee during this period. Brazil did not just respond to the world demand for coffee, but "helped *create* it by producing enough coffee *cheaply* enough to make it *affordable* for members of North America's and Europe's *working* class" (p. 21; *italics* added).

Brazil has become so closely associated with *coffee* that many erroneously believe that the plant is a native of this country. Brazil offers a *notable* example of the rewards and risks of relying heavily on a *single* product. Coffee made modern Brazil, but at a tremendous *human* and *environmental* cost (*ibid*, *italics* added, p. 22).

Brazil is the world's *fifth* largest country covering over three million square miles. The Portuguese, who discovered, conquered, and exploited Brazil first thought of it as a paradise. Unfortunately, they went on a spree to destroy the very same paradise (*ibid*, p. 22).

During the seventeenth and eighteenth centuries African *slaves* worked in unbelievably *harsh* conditions on the huge *sugar* plantations, called *fazendos*, owned by the wealthy *elite*. The sugar barons found it cheaper to import *new* slaves than to take care of the health of their existing ones. Consequently, the slaves had a very *short* life span, and, on average, a slave died after just *seven* years! So, it was not surprising that the rich owners of the large *coffee* plantations in Brazil, too, followed the same cruel and inhuman path (*ibid*, p. 22).

5.1 How Brazil Grew Coffee: Quantity over Quality

The agricultural methods Brazilians used to grow and harvest coffee required *minimum* effort and emphasized *quantity* over quality. This is the approach that remains mostly unchanged even to this day (*ibid*, p. 25).

As mentioned earlier, ripe coffee berries were smuggled by Melho Palheta into Para in Northern Brazil in 1727. However, the mountainous Paraiba valley region south of Rio de Janeiro has a *moderate* climate. Therefore, that region was particularly appropriate for growing coffee. Moreover, the well-drained—and *nutrient-rich*—red clay soil found in this area turned out to be perfect for coffee trees (Morris, p. 101).

The large coffee growers used cultivation techniques that were *crude*, *counter-productive*, and *harmful* to the environment. That included *cutting* and *burning* hillside forests that created a temporary layer of fertilized *ash* above the virgin soil into which the coffee seeds were planted. Since the protective forest cover had been destroyed, the soil offered *no* shade to the coffee trees which grew in the blazing sun. As a result, nutrition was *sucked out* of the depleting humus layer. Also planting of rows of trees *up* and *down* the hills increased *erosion*. Furthermore, not much fertilizer was added to the soil: all of which then led to widely *fluctuating* harvests (Pendergrast, p. 25, Morris, pp. 101-102).

Coffee trees take a *rest* following a heavy bearing season, but the conditions in Brazil made the phenomenon even worse. So, when the land got "tired", the Brazilians simply abandoned it, and went on to clear *new* land to replace it. The long-term implication of this practice was that the tropical rain forests of Brazil once destroyed would take "*centuries* to regenerate" (Pendergrast, p. 25, *italics* added).

So, as coffee cultivation grew in Rio, so did the slave imports. By 1828 a *million* slaves—nearly a *third* of the country's population—were toiling in the coffee fields of Brazil. But, by this time, the British had *outlawed* the slave trade. So, in order to appease them, Brazil made import of slaves illegal in 1831, but never really enforced the law (*ibid*, p. 23).

Finally, it is important to point out that Brazil practiced slavery *longer* than any other country in the Western hemisphere (*ibid*, p. 24).

At that time there was only one type of coffee: *Arabica*. This is the kind that grows best between 3,000-6,000 feet above sea level. The coffee beans planted on higher altitudes grow *slowly* and, therefore are generally more *dense* and *flavorful* than those grown at lower altitudes. Unfortunately for Brazil, 95% of the country is below 3,000 ft. So, Brazilian coffee beans have always tended to lack *acidity* and *body.* Furthermore, periodically, Brazil suffers from *frosts* and *droughts* which have increased in frequency and intensity, because the protective forest cover has been *destroyed* (*ibid*, p. 26).

The traditional method of removing coffee beans is known as the *dry method* which is still popular in Brazil. However, this method has often produced *poor* results. Since ripe *and* unripe cherries were stripped together, this process compromised the coffee's *taste* from the very beginning (*ibid*, p. 27).

5.2 Brazil: From Slaves to Colonos

Toward the latter part of the nineteenth century, the Rio coffee lands were *dying* due to the environmentally destructive form of coffee cultivation pursued for a long time on the huge *fazendos*. Consequently, the main coffee-planting region moved south and west to the plateaus of *São Paulo*. The *new* coffee owners, the *Paulistas* of São Paulo, thought of themselves progressive modern businessmen: as compared to the "old-fashioned baronial lords of Rio coffee" (*ibid*, p. 27).

After slave importation was *banned* in 1850, the *Paulistas* decided to import immigrants from *Europe*. They paid for their transportation, gave them a house to live in, assigned them a specific number of coffee trees to take care of, to harvest, and to process. They were also given a piece of land to raise their own food (*ibid*, p. 28).

But there was a *catch* to this seeming generosity. The catch was that the sharecroppers *had* to pay off their transportation cost, along with other advances, which took years to pay back. Because it was illegal for immigrants to move away from the plantation, this amounted to *debt peonage:* a different form of *slavery*. So, it was not a surprise that the Swiss and German workers revolted in 1856 (*ibid*, p. 28).

Finally, the Paulista farmers were able acquire enough political clout in 1884, when they were able to *persuade* the Brazilian government to *pay* for the immigrants' transportation expenses so that they would be *free* from a big debt burden when they arrived in Brazil (*ibid*, p. 28).

Between 1884 and 1914 more than a *million* immigrants—mostly poor *Italians*—called *colonos*, flooded São Paulo to work on coffee farms. However, working and living conditions on the farms were very *bad*, so the owners employed a band of *armed* guards—called *capangas*—to control them. One owner was so hated that he was hacked to *death* by the *colonos* when he walked through his farm unprotected (*ibid*, p. 28).

While some colonos managed to acquire their own land, many others earned just enough to be able to *return* to their homeland: embittered and disheartened (*ibid*, p. 28).

6. Coffee in Guatemala

Guatemala, slightly smaller than Tennessee, is sandwiched in *Central America* between Mexico and Belize to the north, and Honduras and El Salvador to the south. It is known as "the Land of the Eternal Spring". However, Guatemala is prone to *earthquakes*, not to mention a large number of lava-spewing *volcanoes* (*ibid*, p. 30).

In 1821 Guatemala declared independence from Spain (*ibid*, p. 30).

Coffee farms proved *disastrous* for the *indigenous* population in Guatemala, while making the new coffee oligarchy *rich*. Whereas coffee is central to the continued *suppression* of Maya Indians in Guatemala, it is associated with a much more benign political system in neighboring Costa Rica: *democracy* (*ibid*, p. 29, xvii).

The Mayans did *not* have much sense of private property, and preferred to *share* their agricultural land with one another. The Guatemalan government began to *confiscate* the common land owned by the indigenous villages, thus forcing Indians to become sharecroppers, or "debt peons". Many Indian children were *forcibly* taken from their parents and assigned to "Protectors" who usually treated them as *indentured* servants. As a result of this persecution, the Mayans retreated higher into mountains and the *altiplano*—the high plateau—the land that is *not* quite desirable (*ibid*, p. 30).

The site of volcanoes, especially on the Pacific side, was found to be quite suited for growing coffee: particularly the steeply-sloped hillsides—land previously considered useless. But, there was one hitch: this land was occupied by the *Indians*. So, yielding to the political power of the coffee growers, the government did two things. First, it *took over* this land from the Indians. Second, it *forced* the displaced Indians to work on that land to assure the growers a *cheap*, dependable supply of labor (*ibid*, p. 31).

The amount of coffee exported from Guatemala shot up over 6.7 times between 1895 to 1909. Nevertheless, this was realized on the back-breaking labor of the *indigenous* population (*ibid*, p. 32).

6.1 Germans in Guatemala

In 1877 the Guatemalan government passed laws inviting foreigners to invest in its development projects, and to buy land for coffee farms, by offering them significant tax breaks for many years. During the last two decades of the 1800s many enterprising Germans rushed to Guatemala. During this time the Germans provided private capital to build a railroad to the sea. Thus began a trend in which the Germans brought capital and technology to modernize the coffee industry of Guatemala (*ibid*, p.

34).

But it did *not* bother the Germans that the Mayan Indians were treated virtually as *slaves*. One reason is their *contemp*t for the Mayans, who, unfortunately, belonged to a race of people that was *short*. According to one German, the "Indians… are small, dumpy figures who occupy the *lowest* rung on the plantation…and eke out an existence on one mark a day". The Germans employed the cruel "debt peonage" system because they believed that the "only way to make an Indian work is to advance them money, then he can be forced to work" (*ibid*, p. 35, *italics* added).

It is important to point out that while the Mayans were short in height, yet they were *tall* in stature. What they have contributed to our civilization is nothing less than monumental. Between 250-900 AD, they developed an advanced *writing* system. They were also gifted mathematicians who independently developed the concept of *zero*. Also Mayan astronomers deduced that a *solar* year was slightly *more* than 365 days (Note 3).

In Guatemala *women* and *children* were employed on the coffee farms to do the tedious work of *sorting* beans, because they have traditionally been paid even *less* than men. Moreover, they were also forced to work *long* hours along with men (*ibid*, p. 37).

6.2 Superiority of Guatemalan Coffee over Brazilian

In Central America coffee has traditionally been under *shade* trees to protect the coffee plants from the sun. Unlike Brazil, coffee beans were harvested by the "wet" method. According to most experts, this method leads to *superior* beans with *fewer* defects, producing a drink with "bright acidity, and full clean flavor". But, this system is more *labo*r-intensive, requires more *sophisticated* machinery and infrastructure, and also a lot of *water* (*ibid*, p. 36).

During the late nineteenth century importers of coffee recognized two types: *Brazils* and *milds*. The Brazilian coffee gained a reputation for *lower* quality—often, but not always, deserved. Countries like Guatemala carefully processed *Arabica* coffees that were known as *milds*. As mentioned earlier, while Brazilian laborers stripped ripe *and* unripe cherries together, Guatemalan harvesters picked only *ripe* berries (*ibid*, p. 36).

6.3 Coffee in Indonesia

Java and Sumatra in Indonesia, like many other coffee producing regions, are blessed with amazing natural beauty. Unfortunately, this picture of beauty is in *stark* contrast to the *harsh* reality that reflects the "contempt and want of consideration with which the *natives* are treated". The Dutch, who ruled Indonesia, paid wages to the natives that barely exceeded a level of subsistence (*ibid*, pp. 41-42).

7. Early American Coffee Industry

During colonial times the American demand for coffee was slow to develop. *High* alcohol consumption was quite widespread. Many colonists regarded tea and coffee as *poor* substitutes for strong alcoholic drinks. However, during the first half of the 1800s, per-capita coffee consumption went up from three pounds in 1830 to *eight* pounds in 1859 (*ibid*, p. 46).

At this time Americans generally did *not* have a good idea of how to brew good coffee. However, in 1864 Jabez Burns came up with a new invention: the *self*-emptying *roaster*. Soon every town had its own roaster which introduced a sense of *uniformity* to coffee roasting in the country (*ibid*, p. 51).

By 1876, the U.S. was importing 340 million pounds of coffee, three quarters of which came from *Brazil* (*ibid*, p. 62).

7.1 J.A. Folger & Co.

In San Francisco in 1850, James Folger, then fourteen, founded a coffee company—later renamed J. A. Folger & Co.—with his 27-year old partner, James Bovee. The coffee became an instant success with the miners. During the 1870 the company thrived. In 1905 the Folger Co. built a five-story factory near the piers in San Francisco. However, in the famous San Francisco earthquake of 1906 the Folger building was the *only* coffee structure that survived (*ibid*, p. 56, p. 57, p. 129).

In 1963 Folgers's had become number *one* coffee brand in America (Note 4) displacing Maxwell House. The same year P&G acquired Folgers's and dropped the apostrophe. The "buttoned down" men of P&G, "who had turned soap into science", *shook up* the genteel world of coffee (*ibid*, p. 281, *italics* added).

In 1978 P&G brought Folgers into New York City and the rest of the East coast to complete its national expansion. By the end of the year Folgers had captured 26.5% of the national market for *regular* coffee, *surpassing* Maxwell House's 22.3% share (*ibid*, p. 334).

In 1995 P&G bought specialty coffee business of Millstone (*ibid*, p. 388).

In 2008 Folgers became a member of the J. M. Smucker family (Note 4).

7.2 John Arbuckle's Quest for Standardization

John Arbuckle believed *standardization* was critical to the growth and health of the coffee industry. So, in 1868 he began to sell *pre-roasted* coffee in one-pound packages: an endeavor that was an immediate *success*. He argued the strongest selling point in marketing coffee would be a distinctive *brand* name and label. So, he introduced two coffee brands: Arbuckle and Ariosa. Thus, John Arbuckle revolutionized the budding coffee industry by demonstrating how *standardization*, *branding*, and *marketing* could be helpful in selling ordinary, *everyday* consumer products (*ibid*, p. 52, p. 51).

In 1937 Arbuckle's business was sold to General Foods (*ibid*, p. 196).

7.3 Hills Brothers

The Hills Brothers started a coffee business in 1876 in San Francisco. They realized that once roasted, coffee *stales* quickly. So, they wondered if *vacuum* packing could solve this problem. Yet, even a hermetically-sealed tin always contains enough *air* to oxidize the essential oils and make the coffee stale. So, the only way to prevent this is to *remove* air from the package altogether (*ibid*, pp. 124-125).

Fortunately, using the *Norton* process Hills Brothers found that they were *righ*t, because vacuum packing definitely *improved* the quality and freshness of coffee (*ibid*, p. 125).

In 1899, they were able to negotiate a *one-year* contract with exclusive rights on the Pacific coast. Surprisingly, it took *thirteen* years before Folger's and MJB adopted this new technology and the rest of the country *much* longer (*ibid*, p. 125, p. 163).

During the sixties Hills Bros. was seen as a brand of *poor* quality or one that was *declining* in popularity. The company became a member of the Massimo Zanetti Beverages Group in 2006 (*ibid*, p. 285, Note 4).

7.4 Chase & Sanborn

In 1878 *Chase & Sanborn* opened a business specializing in selling coffee and tea. They were the first, in an unsuccessful attempt, to use sealed cans to avoid staling from oxygen because the air was sealed as well (*ibid*, p. 54).

In 1981 Chase & Sanborn was acquired by Nabisco Bands (Note 5), and finally it became a part of Massimo Zanetti Beverages Group 2006 (Note 6).

7.5 Maxwell House

Joel Cheek was a latecomer to the national coffee scene. He began experimenting with coffee samples, and found that some offered a superior *body*, others *flavor*, and still others "*kick*". In 1884 he moved to Nashville where he met Roger Smith from Britain, who had operated a coffee plantation in *Brazil*. The two joined forces and worked on a *three*-country *blend*: the *cheaper* Santos from Brazil that provided a *base,* and two *milds*—from Colombia and Mexico—that lent more *flavor* and *acidity* (*ibid*, p. 132).

In 1892 he believed he had found a perfect blend. So, he approached the management of the *Maxwell House*, a prestigious Nashville *hotel*, and offered them twenty pounds of *free* coffee on a trial basis. The hotel chef liked the blend so much that Maxwell House agreed to Cheek's request to name the blend after the hotel (*ibid*, p. 132).

In 1907 President Theodore Roosevelt visited a Nashville resort where he had a cup of Maxwell House coffee. He is reported to have liked it so much that he said: "Good to the last drop". Later, Maxwell House adopted this slogan as a central part of its advertising (*ibid*, p. 133).

In 1928 the Postum Co. acquired Maxwell House, and in 1929 renamed itself *General Foods* (*ibid*, p. 169).

In 1931 General Foods introduced its Vita-Fresh *vacuum* pack that supposedly removed 99% of the air—*not* just 90%, as with Hills Bros., MJB, and Folgers (*ibid*, pp. 191-192).

In 1985 General Foods was absorbed by Philip Morris (now Altria). Now it is a part of the *Kraft Heinz Co.*, which was formed in 2015 with the merger of Kraft Foods Co., and H. J. Heinz Foods Co. (Datta, 2018b).

8. The U.S. Coffee Industry: 1900 to World War II

8.1 America's First Gourmet Coffee: Eight O'Clock

The Great Atlantic and Pacific Tea Co., also known as A&P, was a super-market chain that was founded in 1859. Through a wholly-owned subsidiary, the American Coffee Corp., A&P bought 100% *Arabica* coffee beans through buyers located in Brazil, Colombia, and other places. The coffee beans were then *roasted* in America where each store had *grinders*, so that customers always got *fresh* coffee. A&P's

most popular coffee brand was *Eight O'Clock Coffee*, renamed in 1919 after the time most people drink coffee (*ibid*, pp. 11-119, Potempa, 2010).

This is the brand that was one of the factors that triggered the growth of the *gourmet* coffee movement in America (Pendergrast, p. 327).

Tata Coffee acquired the brand in 2005 (Potempa).

8.2 Newcomer Colombia Goes for Quality

Colombia is located in northwest South America, adjoining Panama in Central America. Only after World War I Colombian exports of coffee had a significant impact on the market. While its *volcanic* topography was suitable for growing coffee, its *geography* made it extremely difficult to transport beans to the market. The best coffee-growing regions were practically inaccessible *except* through the *shallow*, rapid strewn Magdalena River that was not easy to navigate (Pendergrast, p. 150).

The country went through civil *wars* that lasted from 1854 through 1903. However, once at peace, the Colombians turned to coffee with a "battle cry:" "Colombians, plant coffee or bust". Whereas the larger plantations, called *haciendas*, were dominant in the upper Magdalena river region, the smaller and poor peasants made a *determined* effort to acquire land in the mountainous regions of the west. These *small* landowners eventually became the *majority* of coffee growers, and frequently *helped* one another during the harvest season. Slowly, the larger plantations *declined*, and the small farms *prospered* (*ibid*, pp. 150-151).

Even during the times of falling coffee prices, the *resolute* Colombian farmers maintained their faith in their traditional business. Coffee became so intertwined in the mountain culture of Colombia, that sprigs (Note 7) with red berries and green leaves were used to decorate family graves (*ibid*, p. 151).

Between 1905 and 1915 Colombian coffee exports more than *doubled*. While Brazil followed a growth strategy that often resulted in overproduction, Colombia pursued a path of *steady* expansion of coffee that was of *high* quality. As a result, Colombia's *flavorful* beans began to find *favor* with American and European customers (*ibid*, pp. 151-152).

In 1960 Colombia created *Juan Valdez*: a *mythical* friendly, mustachioed coffee grower, who brought hand-picked coffee beans on his mule from the mountains down to the market. This image of Juan Valdez conveyed in advertisements captured the imagination of the Americans. This is because the American consumers had become accustomed to the *finer* grades of Colombian coffee, and regardless of the price many might *never* go back to the *cheaper* Santos-Brazilian coffee. So, not surprisingly, Colombian coffee exports went up by 33% between 1914 and 1919. In contrast, while Brazil provided *three-quarters* of American coffee imports in 1914, but by 1919 this share had dwindled to *half* (*ibid*, p. 150, p.152, p. 285).

8.3 Java and Robusta Coffee

By 1920 Java's coffee crop consisted of Robusta coffee beans. Robusta—so named for its *hardy* growth—coffee beans were discovered in Belgian Congo in 1898. They have high *caffeine* and are disease *resistant*. Unlike the more delicately flavored Arabica, they are far *more* productive and can be grown anywhere from sea level to 3,000 ft. However, Robusta suffers from a major flaw: its *taste*. Even the best Robusta brews "taste harsh, flat, and bitter" (*ibid*, pp. 152-153).

8.4 Arabica Coffee

The coffee that was first discovered in Ethiopia was *Arabica*. Today, it is commercially grown throughout the *tropics*. This plant *cannot* survive if the temperature falls below freezing. Arabica was the *first* and the *only* species of coffee that was grown for human consumption *until* the twentieth century. Presently, Arabica accounts for about *two-thirds* of coffee production in the world (Morris, p. 14).

8.5 Postwar America Emerges with a Legacy of Low-Quality Coffee

By the end of WW II American coffee had become a *standardized* product. Maxwell House and others offered roasted ground coffee that consisted of a blend based primarily on average *Brazilian* beans, and they all practically tasted the *same*. The all-Arabica coffee wasn't bad, but wasn't very good either. Despite the much-touted benefits of vacuum cans, the *pre-ground* coffee gradually became *stale* while it sat on the shelf. Even though the *drip* method was becoming popular, Americans emerged from the War as a nation that had become accustomed to a taste for "*weak*, *over*-extracted percolator coffee" (Pendergrast, pp. 235-236).

9. The American Coffee Industry after World War II

9.1 Nestlé's Instant Coffee Becomes Popular

In 1938 Nestlé introduced powdered *instant* coffee that *transformed* –for better or worse—the way many consumers around the world drink their coffee. The instant coffee market grew enormously during the postwar period. The taste of instant coffee was so *bad* that it didn't matter what kind of coffee it was made out of. It allowed the manufacturers to squeeze more solids out of each bean by *overextending* the grounds: a process that produced a *bitter* brew (*ibid*, p. 213, p. 340).

By 1952 instant coffee had captured 17% of total coffee consumption in the U.S (*ibid*, p. 240).

The popularity of instant coffee complemented and provided impetus to the growth of coffee *vending* machines. The vending machines, in turn, were instrumental in institutionalizing America's most revered tradition: the *coffee break*. Although work time off for coffee was practically unknown before the War, in 1952 eighty percent of firms polled had introduced a coffee break (*ibid*, pp. 241-242).

In 1964 General Foods introduced Maxim, the first *freeze-dried* instant coffee (*ibid*, p. 283).

9.2 Coffee vs. Soft Drinks: The Lost Generation

During World War II the American public had *limited* access to soft drinks because of *sugar* rationing. However, the Coca Cola Co. was able to manage a big *coup*: getting Coke recognized as a *vital* morale booster for the troops. As such, Coke for military purposes was *exempted* from rationing. So not surprisingly, in 1944 the *teenagers* strongly preferred Coke over coffee (*ibid*, p. 231).

After the War sales of soft drinks began to climb even faster, in spite of the fact that a bottle of Coke cost *twice* as much as a cup of coffee. Nevertheless, the coffee industry was so overconfident it *ignored* the threat posed by Coca Cola. In 1956 Arthur Ransohoff, the chairman of the National Coffee Association, made an *amazing* statement: that "coffee was here on this earth, long before any of the colas" (*ibid*, p. 271, Olshan, 2013)!

The strategy coffee executives were pursuing was *radically* different from that charted by Coke and Pepsi. While the coffee bosses were *cutting* prices, *diluting* their beverage, and advertising coffee as a *commodity*, Coke and Pepsi were successfully promoting an image of *youth*, *vitality*, and the "American way of life". In 1950 per-capita consumption of coffee was *falling*, and continued to decline in the mid-sixties; but, in contrast, that of soft drinks *rose* 33% between 1950 and 1959 (Pendergrast, pp. 246, p. 298).

9.3 Robusta Coffee Invasion Lowers Quality Standards in America

After World War II a much-weakened British government granted independence to India and many other countries in Africa. In 1954 over 80 percent of coffee that came out of Africa was *Robusta*. In 1951 coffee imports in America from Africa represented 4.8% of its total coffee imports, but by 1955 this figure had shot up to 11.4% (*ibid*, pp. 258-259).

One result of this embrace of Robusta by many American coffee makers was that they "*locked* themselves into a downward spiral of coupons-off deals, premium offers, and price wars. Robusta had "crept *insidiously* into *regular* 'blends': with new *bargain* brands selling 20-30 cents *below* the leading brands, but containing 30 percent *more* Robusta. A coffee expert commented that one could hardly call these poor quality coffees as "blends", because they were "almost like a form of *deception* to pack *low*-quality coffee in the expensive vacuum tins. It certainly is the l*owering* of a proud standard, the *crumbling* of a tradition" (*ibid*, p. 261, *italics* added).

Responding to these cheaper blends General Foods *quietly* began adding a small percentage of Robusta to Maxwell House. Soon the other major brands followed suit. By 1956 Robusta accounted for 22 percent of world exports (*ibid*, p. 261).

By 1958 *instant* coffee contained at least 50% Robusta coffee, and many cheaper brands used 100% Robusta. In addition, the manufacturers were squeezing *more* out of coffee beans that now required *four* pounds of raw beans—to the previous *six*—to make *one* pound of instant (*ibid*, p. 262).

To *fool* the consumers into ignoring the worsening taste of instant coffee the manufacturers added back some *smell*. So, when a housewife opened a jar of instant coffee, she would experience a short burst of aroma, and then it would be *gone* (*ibid*, p. 262)!

Manufacturers were also trying to promote "more economic" 10, 12, and 16 oz jars of instant coffee. However, they were likely to have become *stale* sitting in the pantry (*ibid*, p. 262).

The coffee from the *vending* machines was bad, too, because of a large proportion of Robusta coffee (*ibid*, p. 262).

9.4 Declining Sales of Regular Coffee

The current popularity of Starbucks and other specialty coffee stores notwithstanding, the U.S. per capita consumption of coffee in 2005 was about *half* of what it was in the mid-1940s—from the *peak* of

46.4 to 24.2 gallons (Buzby and Haley). In 1946 when demand for coffee was at its *peak*, people would "drink coffee with breakfast, coffee with lunch, and coffee with dinner". "And mostly we'd drink it at home" (Olshan).

So, *what* explains this downturn? We can cite *three* reasons. One is the *increased* availability of alternative beverages, in particular, *carbonated* soft drinks. According to the U.S. Bureau of the Census, an American consumed 10.8 gallons of carbonated soft drinks in 1947. However, in 2005 this figure had shot up about *five*-fold to 51.5 gallons (Buzby and Haley).

As we have noted earlier, the coffee industry *ignored* the formidable threat posed by Coke and Pepsi, who were aggressively wooing the young baby boomers. Another factor is the invention of High Fructose Corn Syrup (HFCS) that accelerated the growth of the carbonated soft drinks market. The Nixon administration's policy of *cheap* corn in the 1970s led to a considerable increase in the production of *corn* which, in turn, drove its price down. This policy led to an unintended consequence that was *monumental* in scope. Now a *new* kind of sweetener—HFCS—became much *cheaper* to produce than sugar. More importantly, the consumers *couldn't* tell the difference between the two (Pollan, 2009, p. 80; also, Datta, 2020a).

In 1980 Coca Cola and Pepsi switched over from sugar to HFCS. But, instead of reducing cola prices Coke and Pepsi chose a *different* path: *increase* the size of the cola bottle. No wonder soft drink sales have gone through the roof as we have mentioned above (*ibid*).

Another factor that *negatively* affected coffee sales in comparison with carbonated soft drinks is that, while the soft drinks industry managed—surprisingly—to project an image of *healthy choice*, coffee was increasingly portrayed as "*poison*!" However, in recent years there has been an almost total *reversal* on this issue (Olshan).

The *second* factor that contributed to a significant reduction in the demand for coffee over time is changing *lifestyles* and adjustments to blending and roasting practices (Buzby and Haley). In the past, custom "encouraged *quick* and *cool* food and beverage breaks, as opposed to complete breakfast and full meals that included coffee". However, now, one is more likely to have a bottle of *water* with lunch rather than a coffee" (Olshan).

Third—and the *most* important—is *taste* (*ibid*).

As mentioned above, Americans emerged from the War as a nation that had become accustomed to a taste for "*weak*, *over*-extracted percolator coffee". Within the next two decades after WW II, American coffee became even *worse*: from a state of *mediocrity*, coffee went from 'safely middling' to awful" (Pendergrast, p. 236, Olshan, Note 8).

10. Changing Food Culture and Demographics

According to a Gallup survey conducted in 1954, the eating habits of Americans were "dull". The overwhelming choice of most Americans for dinner—if cost were no object—was fruit cup, vegetable soup, steak, French fries, and apple pie a' la mode (Datta, 2011, 2017).

For a long time American consumers had become *tired* of the standardized goods churned out by the nation's vaunted *mass*-production machine. However, by 1970 the *mass* market of yesterday was fragmenting into a *class* market of today (*ibid*).

This was the time when America had reached a stage where the "era of *bland* food was grinding to a halt". Symbolizing this trend was the opening in 1971of the first *Starbucks* which introduced Americans to "some of the world's *finest fresh-roasted whole* bean coffees": at a *premium* price (Note 9; Ogle, 2006, p. 251, Datta, 2017, *italics* added).

Economic inequality in America has now *widened* so much that it has even *exceeded* the highest level recorded in 1928 that led to the *Great Depression* of 1929. Between 1974 and 2008 the *median* household income in America was on a *downward* escalator *squeezing* the "*Traditional Middle Class"* (Note 10). However, another class that has seen a major expansion in its ranks is the "*Upper Middle Class*", consisting of a large number of *dual*-income professional families that occupy the 80-99.5th percentile of income. This has led to a sharp rise in the *premium*, and to a much lesser extent, the *super-premium* segments (Datta, 2011, 2017).

11. The Specialty Coffee Revolution

In 1972 Mr. Coffee automatic electric *drip* brewer made a debut. By 1974 *half* of the ten million coffeemakers were electric drip. Mr. Coffee was a major *advance* over pumping percolators and was *instrumental* in the rise of and appreciation for *good* quality coffee: in particular among *two*-career households looking for *simple* automatic brewing (Pendergrast, p. 313).

Erna Knutsen was the first to use the term 'specialty coffee' (Morris, p.153). In the early 1970s *specialty* coffee roasters and coffeehouses started to appear with growing frequency in America and Canada. Across America many consumers began to realize that for just a *little* more money, they could buy coffee of *fine* quality that tasted *good*. By 1980, *specialty* coffee was *entrenched* in *big* cities on *both* coasts. Moreover *whole* bean coffees began to show up in *selected* supermarkets across the country (Pendergrast, pp. 312, 325-326).

However, the *inspiration* for the Starbucks' vision came from *Peet's* Coffee & Tea that opened in 1966 in Berkeley, CA: with a mission to sell high quality *whole* bean coffee for *home* consumption. Soon lines of customers began to form *stretching* around the corner, patiently waiting for Peet's coffee (*ibid*, pp. 292-293).

11.1 The Starbucks Marvel

The "Upper Middle Class" consists mostly of *professionals*. They are more likely to engage in *foreign* travel and have a *cosmopolitan* taste. But, most importantly, their lifestyle and opinions exert considerable *influence* over the entire society (Datta, 2011, 2017).

The quest for quality in coffee was led by young baby boomers. A large number of them had hitchhiked through Europe, or were stationed there while serving in the military. And it is *there* that they discovered the joys of *espresso,* specialty coffee shops and cafés, and began a search for *community*

(Pendergrast, p. 308).

At the same time, a *similar* phenomenon occurred in the U.S. Beer industry. When the baby boomers returned home from Europe they had developed a taste for European-style beers (e.g., *Heineken*) which were being sold at *premium* prices in America. From a share of just 1% of total U.S. beer sales in the 1960s, imports climbed all the way to 21% in 2008 (Datta, 2017).

So while in Europe—with their keen cosmopolitan taste for *international* cuisine and *diversity*—the baby boomers discovered “aromatic fresh roasted whole beans, tumbling from small roasters”: an experience that had earlier inspired many at *Peet’s* (Pendergrast, p. 308).

Among those baby boomers were three college students from Seattle: Jerry Baldwin, Gordon Bowker, and Zev Siegl who had traveled through Europe together. In 1971 they started a small quality *roasting* business made from coffee beans they bought from Peet’s. They named the Seattle store: *Starbucks* (*ibid*, p. 308, p. 309).

In 1980 Zev Siegl sold out. In 1982 Baldwin hired the visionary Howard Schultz as his new head of marketing. In 1984 Starbucks sent Schultz to an international house-wares show in *Milan*, Italy. He found that while Milan had fifteen hundred espresso bars, Italy as a whole had two hundred thousand (*ibid*).

A barista (coffee bar-tender) greeted Schultz one morning as he handed a tiny demitasse (cup) of espresso to one customer, then created a perfect cappuccino. Schultz describes this experience in the following words (*ibid*, pp. 367-368, *italics* added):

> The barista moved so gracefully that it looked as though he were grinding coffee beans, pulling shots of espresso, and steaming milk at the same time, all the while conversing merrily with his customers…It was great *theater*…It was like an *epiphany*. It was so immediate and physical that I was shaking.

After this spiritual experience, he argued that “if we could re-create in America the authentic Italian bar culture…Starbucks could be a great *experience*, not just a great retail store” (Morris, p. 154).

But back home he got a *chilly* reception. So, Schultz *left* Starbucks and opened a *coffeehouse* of his own, and within six months a thousand people were buying espresso coffees in his store. In 1987, he learnt that Starbucks was for sale. With the help of some investors he was able to buy all *six* retail outlets and the *roasting* plant (Pendergrast, pp. 369-370).

In 1987 Schultz opened the *first* Starbucks coffeehouse in Chicago. In 1989 Starbucks had *fifty-five* locations in the Pacific Northwest and Chicago. In 1991, through various trials and tribulations, Starbucks had managed to have over one hundred coffeehouses, with $57 million in sales (*ibid*, p. 371).

At this time many other regional coffee stores were expanding, too, and as a result sales of *gourme*t coffee beans *tripled* between 1985 and 1991 accounting for *20%* of home purchases (*ibid*, p. 371).

In 1992 Starbucks became a public company. The company paid “slightly above-minimum wage” that was *better* than most fast food companies. Starbucks offered an innovative benefits package that covered *part-time* employees who worked twenty hours or more per week. As such employee turnover at Starbucks was *60%* per year compared to 200% for the industry as a whole (*ibid*, p. 374) (Note 11).

By 1995 the Seattle-based Starbucks had been *transformed* into a national phenomenon—and even without any paid publicity—*Starbucks* became synonymous with "*fine* coffee, *hip* hangouts and *upscale* image" (*ibid*, p. 367, *italics* added).

12. Howard Schultz's Vision (Note 12)

As mentioned above, in his 1984 visit to Italy Schultz was captivated by an encounter with a barista. After this spiritual experience, he argued that if we could re-create in America *genuine* Italian bar culture Starbucks could be a great *experience*, not just a great retail store. And that is what he set out to do when Starbucks opened its first coffeehouse.

Customers of coffee bars did not like to sip coffee at the counter, but rather *sit* at a table and chat. They also preferred *paper* cups over porcelain ones because they could take their drinks back to work. So, Schultz adopted this format for his coffee stores. This format combined *two* elements: the *coffee* and the *environment*, where the *premium* price of the former paid for the latter (Morris, pp. 154-155).

The Italian style coffees turned out to be perfect for introducing specialty coffee to American customers. They could still recognize the "distinctive bite of the espresso" "through the sweetness of the milk". *Caffe latte* became the *most* popular as steamed—rather than frothed—milk produces more density and sweetness than in a cappuccino (Morris, p. 155).

12.1 Shift of Focus: From Selling Beans to Serving Beverage (Morris, p. 153)

What Starbucks coffeehouses offered is the "*theater* of the barista 'hand-crafting' the beverage—grinding fresh beans, pulling a shot from the machine, foaming and poring milk": an *experience* that clearly revealed the "*value added* during the process" (Morris, p. 155; *italics* added).

That is why customers were willing to pay *high* prices for a *premium* product—and the *experience*—they could *not* replicate at home. Moreover, high *premium* prices charged by Starbucks enabled it to provide a *comfortable* environment that included sofas, on which customers could *savor* their coffee (*ibid*).

Schultz touted Starbucks as a "third" place between work and home. As sociologist Ray Oldenburg describes it, this is the kind of place in which *informal* contacts between *unrelated* people create a sense of *community*. Behavioral studies, however, have found *not* much evidence of conversations that are initiated between strangers. Instead, the "attraction of the coffee shop lies in being surrounded by people *without* having to engage with them" (Morris, p. 156).

The advances in wireless digital technology let customers continue working, or engage in social media conversation, while enjoying the coffee and the restaurant's ambience all at the same time (*ibid*).

12.2 Starbucks Makes Coffee an "Affordable Luxury"

According to Maslow's hierarchy of *basic* needs, there are two types of *esteem* needs: (1) Esteem from *others*, and (2) *Self*-esteem (Datta, 2010c, 2018a).

One avenue for achieving self-esteem is through *personal enrichment*. One way to accomplish this is via *self-indulgence*, for example: driving a high-powered sports car. Another—that most people can relate to—is to indulge in "*affordable luxuries*" (Wild, p. 3, Datta, 2010c, 2018a).

Pressured by an increasingly hectic schedule, many busy, stressed-out members of the *middle* class are allowing themselves the indulgence of small "*affordable luxuries*": such as, a $4.50 tall Starbucks latte, a $10 six-pack of Heineken beer, a gourmet take-out dinner, and so on. Another example is L'Oreal's famous ad slogan "Because I am worth it" (*ibid*).

13. Espresso-based Coffee Takes off

First let us find out what is an *espresso* coffee? This coffee is made by "espresso machines that pressurize and shoot near-boiling water through finely ground coffee beans packed into cakes. This method gives you a complex, aromatic, and caffeine-packed shot of coffee in under thirty seconds" (Note 13).

In 1980 the first coffee *carts* featuring espresso machines appeared in Seattle; by 1990 they were over two hundred. By 1994 *espresso*-based beverages were *outselling* brewed coffee in American specialty stores (Morris, pp. 153, 155).

13.1 Specialty Coffee Attracts New Entrants

The Specialty Coffee Association of America (SPCCA) had less than a hundred members in 1985. However, its membership had exploded into the thousands a decade later. In 1993 *McDonalds* began to offer espresso coffee in its stores. In 1983 *Dunkin*' Donuts started to sell whole beans. But, by 1995 it had become a "coffee company disguised as a donut company" (Pendergrast, p. 387).

13.2 Single-portion Specialty Coffee for Home

The specialty revolution has spawned a demand for similar beverages at home. Machines using 'single portion' coffee pods or capsules have made this a reality. Portions of ground coffee are *sealed* into aluminum capsules to preserve freshness. Nespresso, launched by Nestlé in 1986, pioneered this technology for delivering *espresso*-like beverages and remains the category's *global* leader today (Morris, p. 164).

The Keurig K-Cup system introduced in 1998 by the Green Mountain Coffee Co. is the dominant brand in the U.S. to make American-style drip-brewed coffees at home (*ibid*).

14. Folgers and Maxwell House Miss the Boat on the Specialty Segment

By 1991 Starbucks had over one hundred stores, as we have noted earlier. So, given this success, Schultz says he was afraid of waking up sleeping giants: Maxwell House, Folgers and Nestlé. He added that "If they had started to sell *specialty* coffee early on, they could have *wiped* us out" (Pendergrast, p. 371, *italics* added).

He was lucky that the sleeping giants kept sleeping.

By the mid-1990s industry observers clearly saw that while gourmet small-scale roasters were flourishing, the major roasters had lost their way. In 1995 *Forbes* summarized the latter's status in one-word headline: "Oversleeping". Addressing their message to Maxwell House, Folgers, and Nestle, *Forbes* said: "Wake up and taste the freshly ground coffee" (*ibid*, p. 366).

Adrian Slywotzky, writing in *Value Migration*, suggested that "the customer was *not* driving decision making at P&G, General Foods, or Nestle, where coffee had become *commoditized*. On the other hand, she added, the "smaller gourmet roasters were providing the *value* that had 'migrated' from the big boys" (*ibid*, p. 387; *italics* added).

She further noted that P&G—the owner of Folgers—which had introduced new brands "more skillfully than anybody else, …*missed* the boat this time. P&G could afford to invest $50-$100 million over two years to build a *new* national brand". But, unfortunately P&G *didn't* (*ibid*, p. 388; *italics* added).

It was in 2006 that Folgers introduced Folgers Gourmet Select Brand. However, it was a *mid-priced* (Table 1) brand that did *not* directly compete with *premium* brands like Starbucks.

14.1 Folgers and Maxwell House Followed Cost Leadership Strategy

The largest segment in the coffee market in 2008 was *Ground Coffee* with 70% of total coffee sales. In this paper we have hypothesized that the top two market leaders are *most* likely to compete in the *mid-price* segment. However, our analysis produced a *stunning* result! Unbelievably, the market *leader*, Folgers—and the *runner-up* Maxwell House—were following *cost leadership* strategy by competing in the *economy* segment (Table 1): an endeavor not likely to have been very profitable.

15. Coffee Prices on the World Market Lower than Cost of Production

Coffee is a crop that is *produced* around the globe in developing countries that are generally *poor*. But it is largely *consumed* in developed countries like the United States and Europe that are *affluent*. In the previous pages we have witnessed the terrible conditions under which coffee is *produced*, and how *poorly* the indigenous laborers who produce coffee are *paid*.

We have also delved deeply into how coffee is *marketed* and consumed in the United States.

But there is one important aspect of the coffee business that we have *not* explored yet: the *prices* the coffee producers get on the world market for coffee.

The extraordinarily *low* prices that are "currently paid to the producers of coffee is leading to the largest *enforced* global lay-off of workers in history". According to *Wall St. Journal* 125 million people depended on coffee in 2002. The World Bank has estimated that there are 25 million *small* producers in developing countries for whom coffee is the *only* source of income. Also an astounding 500 million people are globally involved directly or indirectly in the coffee trade (Wild, p. 1, *italics* added).

As long as the price of coffee continues to be *lower* than the cost of production, *small* coffee producers must subsidize coffee consumers. But they cannot do so indefinitely. The result is *loss* of livelihood on a massive scale. According to a World Bank estimate that between 2000 and 2002 about 6000,000 workers in the coffee industry **lost** their jobs in Central America alone (Wild, p. 2).

16. The Coffee Industry: An Overview

Words cannot adequately express our profound gratitude to Mark Pendergrast for his monumental book *Uncommon Ground*. In this work he has been able to lay bare his insight into coffee: a product that is seemingly simple, yet in essence exceedingly intricate, full of nuances—and fascinating!

Yet coffee also has a *dark* side: and that is the *deplorable* environment of poverty, harsh working and living conditions under which coffee plantation laborers struggle around the world even today. Coffee also lies at the heart of the continued *subjugation* of the *Mayan* Indians in Guatemala. They are very small probably due to their *ancestral* malnutrition. Their traditional staples of corn, tortillas and beans may ward off hunger but *not* malnutrition (Pendergrast, pp. xxiii, vii) (Note 14).

The extraordinarily low prices—that are *lower* than the cost of production—currently paid to the producers of coffee, that include 25 million small farmers, is leading to the largest *enforced* global lay-off of workers in history.

At the end of the last century coffee provided livelihood for over two million people. It is a highly *labor*-intensive crop. Ironically, the vast majority of those who perform the most labor-intensive tasks work in the most *beautiful* places on this globe. Typically, these places feature tropical volcanic peaks as a background where temperature rarely goes below 70° F and more than 80° F. In today’s dollars these laborers make just $4.50 per *day*.

Pendergrast has summed up the *salient* points of the history of the coffee industry in these words (back of front cover):

> Coffee has been banned as a creator of revolutionary sedition, vilified as the worst health-destroyer on earth and praised as the boon of mankind. Its history provides a window through which to view broader themes of colonialism and culture clash, the rise of mass production, modern-day media and marketing...
>
> It is the “*second* most valuable exported legal commodity in the world behind oil, providing the largest jolt of the world’s most widely taken psychoactive drug”.

Started as a *medicinal* drink for the rich, coffee became the popular modern stimulant of the *blue-collar* worker during his break, “the gossip starter in middle class kitchens, and the romantic binder for wooing couples”. Coffeehouses have provided places to plan revolutions, write poetry, do business, and meet friends.

Coffee has been banned as a creator of revolutions, and coffee drinkers have faced government persecution. Yet coffee drinking has *persisted* over time. There are *two* reasons for this. One is the *addictive* nature of caffeine. The other is that coffee provided an intellectual *stimulant*: a pleasant way to feel increased *energy* without any apparent ill effects.

Coffee is also a drink that all members of a *family* can enjoy together.

When coffee was introduced in France, one of its important contributions was that it led to a *reduction* in alcohol consumption. Similarly, before the arrival of coffee the British were *heavy* drinkers of alcohol. But, fifty years later coffee drinking had made the British much *more* sober. For *low-income* families coffee offered a *pick-me-up* and a moment of respite, although it did not offer much nutrition. More importantly, it contributed noticeably to the *sobering* of an “alcohol-soaked Europe”.

During the colonial times in America *high* alcohol consumption was quite widespread. But, during the first half of the 1800s, per-capita coffee consumption went up from three pounds in 1830 to *eight* pounds in 1859.

Coffee is a *global* beverage that is grown commercially on four continents, and consumed ardently in *all* seven. There is even an espresso machine on the International Space Station (Morris, p. 7).

Coffee’s history in America shows how an entire industry can lose focus, allowing upstart microprocessors to reclaim quality and profits; and how in the post-World War II era, the industry lost its focus and abandoned quality in *favor* of price cutting and *commoditization* of a fine product.

Nevertheless, around the world we are now witnessing a coffee *renewal* as small roasters revive the fine art of coffee blending, and when consumers discover the joy of *fresh*-roasted, *fresh* ground, *fresh* brewed coffee and espresso, made from the *best* beans of the world.

Finally, the *spectacular* success of Starbucks has demonstrated in no uncertain terms that the consumers were *no* longer content to treat coffee as a run-of-the mill drink—but rather something *special*—that deserved to be *savored*, and for which they were willing to pay a *premium* price: especially for a product they could *not* make at home.

17. Private Brands

It is important to clarify what *private* brands are. These are brands made exclusively for individual *retailers*, e.g., a supermarket, or a drug store. Usually, such brands are targeted at the *economy* segment, and, as such, are generally sold at prices *lower* than those of major name brands. One reason retailers *like* private brands is because private brands tend to be more profitable than name brands (Datta, 2018b, 2018c, 2020b).

In 2008 Private Brands Ground Coffee had 7.5% share of the overall U.S. Coffee market (Table 1).

18. The U.S. Coffee Market—Price-Quality Segmentation Profile

This study is based on U.S. retail sales for 2008 and 2007 (Note 15). The data includes total dollar and unit sales, no-promotion dollar and unit sales, and promotion dollar and unit sales (Note 16).

The total U.S. retail Coffee sales for 2008 were $3.78 Billion that featured *five* varieties which are listed below along with their market shares: Ground Coffee (70%), Soluble (Instant) Coffee (10.7%), Whole Bean Coffee (8.4%), Liquid Coffee (7.8%), and Flavored Coffee (3.1%). We have focused our statistical analysis on by far the biggest segment: *Ground Coffee*.

18.1 Hierarchical Clustering as the Primary Instrument of Statistical Analysis

We have used cluster analysis as the *primary* statistical tool in this study. As suggested by Ketchen and Shook (1996), we have taken several steps to make this effort as objective as possible:

- First, this study is *not* ad-hoc, but is grounded in a theoretical framework, as laid out below.

- Second, we are fortunate that we were able to get *national* sales data for our study for *two* years. Thus, this data provided a robust vehicle for subjecting cluster consistency and reliability to an *additional* test.
- Third, we wanted to use two different techniques—KMeans and Hierarchical—to add another layer of cluster consistency and reliability. However, we found Hierarchical cluster analysis to be *superior* in meeting that test. So, we did *not* consider it necessary to use the KMeans technique.

18.2 Theoretical Foundation for Determining Number of Clusters—and Their Meaning

As already stated, a major purpose of this paper is to identify the market share leader and determine the price-quality segment—based on unit *price*—it is competing in.

An important question in performing cluster analysis is determining the *number* of clusters based on an *a priori* theory. Most consumer markets can be divided in three *basic* price-quality segments: *premium, mid-price*, and *economy*. These three basic segments can be extended to *five*: with the addition of *super-premium* and *ultra-economy* segments (Datta, 1996).

Therefore, *three* represents the *minimum* and *five* the *maximum* number of clusters (Datta, 2012, 2017, 2018a, 2018b, 2018c, 2019a, 2019b, 2020a, 2020b).

An equally crucial issue is to figure out what each cluster (e.g., *economy, mid-price, and premium*) really *means*.

Perhaps a good way to understand what each price-quality segment stands for in real life is to look at a socio-economic *lifestyle* profile of America. It reveals *six* classes (Note 17). Each class is associated with a price-quality segment typified by the retail stores where they generally shop: each a symbol of their lifestyle (Datta, 2011).

18.3 Guidelines for Cluster Consistency and Reliability

In addition to laying a theoretical foundation for the *number* of clusters, we set up the following guidelines to *enhance* cluster consistency and reliability (Datta, 2012, 2017, 2018a, 2018b, 2018c, 2019a, 2019b, 2020a, 2020b):

- In general, there should be a *clean break* between *contiguous* clusters.
- The *anchor* clusters—the top and the bottom—should be *robust*. In a cluster-analysis project limited to a range of three to five clusters, a robust cluster is one whose membership remains constant from three- to four-, or four- to five-cluster solutions.
- Finally, we followed a step-by-step procedure to determine the optimal solution. First, we start with *three* clusters. Thus, the bottom cluster obviously becomes the *economy* segment and the top cluster the *premium* segment. Next, we go to *four* clusters, and *tentatively* call them: *economy, mid-price, premium*, and *super-premium*. Then we go to *five* clusters. If the membership of the *bottom* cluster remains unchanged from what it was in the four-cluster result, it clearly implies that the *ultra-economy* segment does *not* exist. Next, if the membership of the *top* cluster also remains the same from a four- to a five-cluster solution, then the *top* cluster becomes the *super-premium* segment. This signifies that even in a five-cluster solution we have only *four* price-quality segments: *economy, mid-price, premium*, and

super-premium. It means that either the *premium* or the *mid-price* segment consist of two *sub*-segments (see Table 1).

18.3.1 External Evidence to Validate Results of Cluster Analysis

Whenever possible, we have tried to seek *external* evidence to validate the results of cluster analysis. For example, many companies identify on their websites a certain brand(s) as a *premium* or luxury brand. A case in point is that of P&G which says that its plan is to compete in all "price points": *super-premium*, *premium*, and *mid-price: except* the *economy* segment (Datta, 2010b).

18.4 Testing Hypotheses

- I—That the market-share leader would be a member of the *mid-price* segment.
- II—That the market-share leader would carry a price tag that is *higher* than that of the nearest competition.

18.5 Results of Hierarchical Cluster Analysis

The retail sales data presented us with a very large number of Ground Coffee brands that equaled 450 in 2008. We have focused our attention on the *most* popular pack-size that ranged from 10-13 oz. If a brand had multiple entries

in that pack-size we have chosen the one with the highest sales.

In Table 1 we present the results of cluster analysis of 28 Ground Coffee brands with sales >$5 million. For *both* 2008 and 2007 we found that the results did *not* support our hypothesis that the market leader would be a member of the *mid-price* segment. Instead, the results show that *both* the *market leader* Folgers brand, and the *runner-up* Maxwell House, were members of the *economy* segment, although Folgers' unit price was *higher* than that of Maxwell House, as we have hypothesized.

This is truly an *astonishing* result! In all similar previous *nine* studies preceding this one, *not* a single market leader—or runner-up—competed in the *economy* segment. This implies that both Folgers and Maxwell House were following the *cost leadership* strategy based on *lower* price than better quality, and treated coffee as a *commodity* to gain market share.

As we have pointed out before, the dramatic success of Starbucks demonstrated in no uncertain terms that the consumers were no longer content to treat coffee as a run-of-the mill drink, but rather something *special* that deserved to be *savored*, and for which they were willing to pay a *premium* price.

18.6 Relative Price a Strategic Variable

Finally, we performed one more test to determine the consistency and reliability of the results of cluster analysis in this study. So, we *ranked* the unit price of each brand for 2008 and 2007 for Ground Coffee. All *three* measures of *bivariate* correlation—Pearson, and non-parametric measures Kendall's tau_b, and Spearman's rho—were found to be *significant* at an amazing 0.01 level!

We believe these surprising results became possible only because management in the U.S. Coffee industry must have been treating *relative* price as a strategic variable, as we have suggested.

While the price of a brand, compared to its nearest competition, may change over time, it is *unlikely* to change much from one year to the next. This is significant not only for the market share leader, but also for every brand no matter which price-quality segment it is competing in.

Another conclusion one can draw from such impressive results is that the U.S. Coffee market is quite *competitive*.

18.7 The Role of Promotion

For 2008 promotional sales of the U.S. Coffee market averaged 44% of net retail sales. We performed *bivariate* correlation between total (net) retail sales vs. promotional (PROMO) sales. The results were significant for *all* three measures—Pearson, Kendall, and Spearman—at the 0.01 level.

Table 2 presents a measure of the promotional intensity of 20 brands for 2008. The following are the highlights:

Hills Bros. is competing in the *economy* segment (Table 1). One would normally expect that brands competing on *low* price do *not* need to rely too much on promotion as well. Yet, Hill Bros. finds itself in the *Very Heavy* category of promotional intensity.

It is interesting to note that the market leader, Folgers and the runner-up, Maxwell House are members of the *economy* segment (Table 1). Yet, it seems *low* price alone was not enough to protect their high market share, so they had to summon the aid of *heavy* promotion as well.

19. Strategic Groups in the U.S. Ground Coffee Market, 2008

We found *five* strategic groups in this market for Ground Coffee which was 70% of the total coffee market. Their market shares of the *overall* coffee market are as follows:

1. J. M. Smucker Co.

Market leader—Folgers' Brands: 21.8%

2. Kraft Heinz Co.

Runner-up— Maxwell House: 11.6%

3. The Specialty Group:

Starbucks: 6.3%

D*unkin*' Donuts: 3.0

4, Private Brands: 7.5%

5. Minor Players: 14.2%

19.1 J.M. Smucker Co.

The company's sales for the fiscal year ended April 30, 2018 were $7.4 Billion (Note 18).

19.2 Kraft Heinz Co.

The company's sales for 2019 were $25 Billion. (Note 19).

19.3 Starbucks Corporation

The company's sales for the fiscal year ended Sept. 29, 2019 were $26.5 Billion (Note 20).

19.4 Dunkin' Brands

The company's sales for the fiscal year 2019 were $1.4 Billion (Note 21).

Table 1. Hierarchical Cluster Analysis: The U.S. Ground Coffee Market, 2008 (10-13 Oz)

Price-Qlty. Segment	**Brands-Ground Coffee (28)**	**Upr2008**	**ClusCtr**	**BrandMSh%**	**Brand$M**	**Brand$M**
	Brands with GrndCoffee Sales>$5M			**GrdCoffee**	**GrdCoffee**	**10-13oz GrdCoffee**
Super-Premium	PEET'S 12oz	$9.95	**$9.95**	1.3%	$48.8	$48.7
Premium	STARBUCKS 12oz	$8.45	**$7.58**	6.3%	$239.0	$230.7
	GREEN MOUNT AIN ROASTERS 12oz	$7.71		0.4%	$15.4	$9.5
	MILLSTONE 12oz	$7.65		0.9%	$35.5	$21.2
	NEWMAN'S OWN ORGANICS 10oz	$7.34		0.3%	$9.7	$7.6
	DUNKIN' DONUTS 12oz	$7.34		3.0%	$111.8	$100.2
	SEATTLE'S BEST 12oz	$7.32		1.4%	$53.1	$53.0
	TULLY'S 12oz	$7.25		0.4%	$14.4	$14.4
Mid-Price I	FOLGERS GOURMET SELECT 12oz	$5.78	**$5.78**	0.8%	$28.6	$17.7
Mid-Price II	PRIVATE BRANDS 12oz	$5.26	**$4.64**	7.5%	$282.3	$59.0
	COMMUNITY 12oz	$5.20		0.9%	$35.0	$2.5
	FOLGERS SIMPLY SMOOTH 11.5oz	$4.85		0.6%	$22.9	$12.6
	DONFRANCISCO'S 12oz	$4.79		0.7%	$24.9	$24.9
	FOLGERS FLAVORS 11.5oz	$4.76		0.5%	$18.7	$15.5
	MJB 13oz	$4.51		0.3%	$11.6	$0.5
	MELITTA 11.5oz	$4.33		0.5%	$18.6	$15.9
	EIGHT O'CLOCK 12oz	$4.28		1.4%	$52.4	$43.0
	YUBAN 12oz	$4.21		1.2%	$43.6	$11.9
	NEW ENGLAND 11oz	$4.15		1.1%	$40.0	$18.8
Economy	**FOLGERS 13oz**	**$3.74**	**$3.29**	**13.3%**	**$501.6**	**$75.9**
	HILLS BROS 11.5oz	$3.59		0.7%	$27.8	$2.2
	FOLGERS COFFEEHOUSE SERIES 11oz	$3.55		5.8%	$220.5	$37.1
	FOLGERS LITE 11.5oz	$3.50		0.9%	$32.9	$10.9
	MAXWELL HOUSE 11.5oz	**$3.32**		**11.6%**	**$439.8**	**$90.6**
	CHOCK FULL O NUTS 13oz	$3.28		1.6%	$59.6	$25.4
	CAFE BUSTELO 10oz	$3.17		0.6%	$22.2	$19.6
	CAFE PILON COFFEE 10oz	$2.80		0.2%	$7.7	$6.9
	CHASE & SANBORN 10.5oz	$2.62		0.5%	$17.2	$5.0
	Total Ground Coffee Sales (28 brands)			**64.5%**	**$2,435.4**	**$981.0**
	Total Ground Coffee Sales--All brands			**69.9%**	**$2,639.5**	
	Total Coffee Sales—All varieries			**100.0%**	**$3,778.3**	

Table 2. Percentage of Promotional Sales to Total Sales: U.S. Coffee Market, 2008

Ground Coffee Brands 2008-Sales> $20M (20)	**PrQSgmt**	**Promo Intensity**	**Promo%**	**MkSh%$**	**Brand$M**
HILLS BROS	*Economy*	**Very Heavy**	62.4%	0.7%	$27.8
MAXWELL HOUSE (runner-up)	*Economy*	**Heavy**	**54.5%**	**11.6%**	**$439.8**
NEW ENGLAND	*Mid-Price*		54.3%	1.1%	$40.0
YUBAN	*Mid-Price*		53.8%	1.2%	$43.6
FOLGERS COFFEEHOUSE SERIES	*Economy*		52.2%	5.8%	$220.5
COMMUNITY	*Mid-Price*		49.1%	0.9%	$35.0
SEATTLE'S BEST COFFEE	*Premium*		48.5%	1.4%	$53.1
CHOCK FULL O NUTS	*Economy*		48.2%	1.6%	$59.6
FOLGERS (market leader)	***Economy***		**47.6%**	**13.3%**	**$501.6**
PEET'S	*Super-Premium*		47.3%	1.3%	$48.8
FOLGERS LITE	*Economy*		44.4%	0.9%	$32.9
STARBUCKS	*Premium*	**Moderate**	41.3%	6.3%	$239.0
DUNKIN' DONUTS	*Premium*		40.6%	3.0%	$111.8
DON FRANCISCO'S	*Mid-Price*		39.2%	0.7%	$24.9
CAFE BUSTELO	*Economy*		37.6%	0.6%	$22.2
PRIVATE BRANDS	*Mid-Price*		37.2%	7.5%	$282.3
EIGHT O'CLOCK	*Mid-Price*		35.8%	1.4%	$52.4
MILLSTONE	*Premium*	**Low-Moderate**	26.2%	0.9%	$35.5
FOLGERS GOURMET SELECTIONS	*Mid-Price*		24.0%	0.8%	$28.6
FOLGERS SIMPLY SMOOTH	*Mid-Price*		23.1%	0.6%	$22.9
Total Ground Coffee Sales All Brands			**44.4%**	**69.9%**	**$2,639.5**
Total All Coffee Sales			**39.5%**	**100%**	**$3,778**

20. Conclusion

The path to market share leadership does *not* lie in lower price grounded in *cost leadership* strategy, Rather a business in pursuit of market-share leadership should try to serve the *middle* class by competing in the *mid-price* segment; and offering quality *superior* to that of competition: at a somewhat *higher* price to connote an image of quality, and to ensure that the strategy is both profitable and sustainable in the long run. The *middle* class is the socio-economic segment that represents about 40% of households in America.

Quality, however, is a complex concept that consumers generally find difficult to understand. So, they often employ *relative* price and a brand's reputation as a symbol of quality.

According to legend coffee was discovered by a goatherd in Ethiopia from where it spread to Yemen.

The discovery of coffee by the Ethiopians soon led to its popularity in Arabia as well. By the end of the fifteenth century, Muslim pilgrims had introduced coffee to the Islamic world that included Persia (Iran), Egypt, Turkey, and North Africa.

Ottoman Turks conquered Yemen in 1536. The coffee beans were exported from the Yemeni port of Mocha. Soon coffee *beans* became an important export all across the Turkish Empire. During the 1600s coffee plants found homes in Mysore, India, Ceylon (Sri Lanka), and Java, Indonesia.

The first coffeehouse opened in Venice in 1683. Soon, it became synonymous with relaxed companionship, animated conversation, and tasty food.

Paris opened its first coffeehouse in 1689. The cafés of Paris, with their social *egalitarian* culture, were a fertile ground for the revolutionaries who opposed monarchy that eventually led to the *French Revolution* in 1789.

The first coffeehouse opened in London in 1652. However, over the course of the eighteenth century the British started to drink *tea* rather than coffee. Around this time, the conquest of India by the East India Company (EIC) was under way where the country concentrated on growing *tea* rather than coffee.

Brazil started to produce coffee in 1727. During the *latter* half of the 19th century coffee cultivation in the Caribbean was declining. It was *Brazil* which then became the *predominant* producer of coffee during this period. However, Brazilians preferred *quantity* over quality.

Guatemala entered the coffee market in 1821. In Central America coffee has traditionally been under *shade* trees to protect the coffee plants from the sun. Unlike Brazil, coffee beans were harvested by the "wet" method which leads to *superior* beans with *fewer* defects, producing a drink with "bright acidity, and full clean flavor".

Columbia was a latecomer to the coffee industry. After its independence from Spain in 1903, Colombia, unlike Brazil, pursued a path of *steady* expansion of coffee that was of *high* quality. As a result, Colombia's *flavorful* beans began to find *favor* with American and European customers.

During the nineteenth century in America there were two main players in the coffee industry: J. A. Folgers & Co. and Maxwell House which were acquired, respectively, by P&G and General Foods in 1963 and 1929. In 1963 Folgers replaced Maxwell House as the market leader.

By the end of WW II American coffee had become a *standardized* product. Americans emerged from the War as a nation that had become accustomed to a taste for *weak*, *over*-extracted percolator coffee. Within the next two decades after WW II, American coffee became even *worse*: from a state of *mediocrity*, coffee went from 'safely middling' to awful.

From its peak in 1946 coffee sales declined by about *half* in 2005. There were *three* main reasons for this: (1) Stiff competition from the *carbonated* soft drinks industry, (2) Changing *lifestyles*, and (3) *Taste*.

This was the time when America had reached a stage where the era of *bland* food was grinding to a halt. Symbolizing this trend was the opening in 1971of the first *Starbucks* which introduced Americans to some of the world's *finest fresh-roasted whole* bean coffees: at a *premium* price.

In the early 1970s *specialty* coffee roasters and coffeehouses started to appear with growing frequency in America. Across America many consumers began to realize that for just a *little* more money, they could buy coffee of *fine* quality that tasted *good*. By 1980, *specialty* coffee was *entrenched* in *big* cities on *both* coasts.

However, at Folgers and Maxwell House coffee had become *commoditized*, as both *ignored* the *specialty* segment.

The results of our *cluster analysis* showed that *both* the *market leader* the flagship Folgers brand, and the *runner-up* Maxwell House, were part of the *economy* segment. This implies that both Folgers and Maxwell House were pursuing the *cost leadership* strategy based on *lower* price, rather than better quality, to gain market share. Nevertheless, such a feat is not likely to have been very profitable.

This is truly an *astonishing* result! In all similar previous *nine* studies preceding this one, *not* a single market leader or runner-up competed in the *economy* segment.

We also found that relative price was a *strategic* variable.

The dramatic success of Starbucks demonstrated that the consumers were *no* longer content to treat coffee as a run-of-the mill drink—but rather something *special*—that deserved to be *relished*, and for which they were willing to pay a *premium* price.

Finally, we discovered *five* strategic groups in the industry.

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Notes

Note 1. Profit Impact of Market Strategies.

Note 2. https://www.en.wikipedia.org/wiki/Age_of_Enlightenment

Note 3. https://www.history.com/topics/ancient-americas/maya

Note 4. https://www.folgerscoffee.com/our-story/history

Note 5. https://www.en.wikipedia.org/wiki/Standard_Brands

Note 6. https://www.en.wikipedia.org/wiki/Chase_%26_Sanborn_Coffee_Company#:~:text=Chase%20%26%20Sanborn%20Coffee%20is%20an,Sanborn%20(1835%2D1903)

Note 7. A small *stem* bearing leaves or flowers, taken from a bush or plant.

Note 8. Jeremy Olshan is the editor of MarketWatch.

Note 9. Retrieved November 16, 2017, from http://www.starbucks.com/about-us/our-heritage

Note 10. And a bolstering of the "Poor", and "Near-Poor" classes (Datta, 2011).

Note 11. In 1991 Starbucks launched the "Bean Stock" program, in which employees, now called "partners" received stock options worth 12% of their annual base pay, to be vested in one-fifth installments over a five year period. Since the average employee *left* Starbucks after 18 months, most options expired and therefore became *worthless* (Pendergrast, p. 374).

Note 12. For more insight into Starbucks history see Michelli (2007), and Schultz and Gordon (2011).

Note 13. https://www.roastycoffee.com/coffee-espresso/

Note 14. https://www.cnn.com/2015/06/04/world/iyw-guatemala-stunted-children/index.html

Note 15. This data is from food stores with sales of over $2 million, and drug stores over $ 1 million; it also includes discount stores, such as Target and K-Mart, but *excludes* Wal-Mart as well as warehouse clubs, e.g., Sam's Club, Costco, and BJ's. It also does not include the "dollar" stores, such as Dollar General, and others.

Note 16. For those stores for which, during a week, there were feature ads, coupon ads, display, or temporary price decrease of at least 5%.

Note 17. The six classes are: "The Poor", "The Near Poor", "Traditional Middle Class", "The Upper-Middle Class", "The Very Rich/The Rich", and "The Mega Rich—Masters of the Universe".

Note 18. https://www.annualreports.com/HostedData/AnnualReportArchive/t/NYSE_SJM_2018.PDF

Note 19. http://www.ir.kraftheinzcompany.com/news-releases/news-release-details/kraft-heinz-reports-fourth-quarter-and-full-year-2019-results

Note 20. https://www.sec.report/Document/0000829224-19-000051/

Note 21. https://www.investor.dunkinbrands.com/annual-report-proxy

Appendix

A Primer on Good Quality Coffee

Coffee is an extremely *delicate* commodity. A roast that is *too* light produces "undeveloped, bitter coffee, while *over*-roasted coffee resembles charcoal. After roasting coffee becomes *stale* quickly, unless it is consumed within a *week*. Boiling coffee, or let it sit on a hot plate, quickly reduces the finest brew to a "stale, bitter, mouth-turning cup of black bile" (Pendergrast, xvi-xvii).

According to coffee experts there are *four* factors that work together to create the perfect cup: "aroma, body, acidity, and flavor" (*ibid*).

The *aroma* is that *fragrance* that taste does not always deliver. *Body* is a more *subjective* quality that indicates the "feel or 'weight' of the coffee in the *mouth*, how it rolls around the *tongue* and fills the *throat* on the way down". *Acidity* refers to a "*tang* that adds *zest* to the cup". Finally, *flavor* is the fleeting, *subtle* taste that explodes in the mouth, then lingers as a *gustatory* memory (*ibid*, p. xvii, *italics* added).