

# Managing a new product launch the issues marketing essay



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After the tremendous success of Keurig Single Cup Brewer system in Office Coffee Service (OCS) or Away-from home market in late 1990's, Keurig Inc. is about to launch their new product named as B100 for At-Home consumers in 2003. The Vice President and CEO of Keurig Inc's Nick Lazaris after doing extensive market surveys and testing completed with the help of professional services and analyzing new marketing strategy and its impact on already existing marketing channels is currently facing some serious issues and problems that the senior management has yet to resolve.

First of all Anderson (2005) states that Keurig wanted to pursue direct sales strategy for its new At-home brewer system B100 but in order not to affect Keurig Authorized Distributors (KAD)'s sale and pricing control over OCS market Keurig thought to introduce a new K-cups called Keurig-cup especially for At-home consumers. Heavy Investment of nearly \$ 700, 000 (\$400, 000 for development of the new cup-based technology, and \$60, 000 per Keurig-Cup packaging line, assuming one line per each of Keurig's five roasters) had already been made and now Green Mountain Coffee Roaster (GMCR) has serious concern regarding the double production of portion packs and their storage moreover not to forget confusion that customers may have. So whether it is beneficial to pursue the launch of Keurig-cups or to just let the existing K-cups to be used in At-home brewer system.

Secondly Anderson (2005) states that there is a pricing issue as the market survey shows the acceptable price to be \$ 149 but after including all the variable and fixed cost of B100 system the cost incurring is \$ 220 which manufacturing is making an effort to lower but it is not yet done. So in this

scenario at what suitable price should B100 system be launched? And how can price be lowered.

Third issue that Anderson (2005) identified was the pricing of the K-cups or Keurig-cups which maximize their market opportunity and would be reasonable enough for both the consumers and the manufacturer.

Finally the issue was to look out of the box for any other marketing effort beside the current marketing plan which might have been missed and which could make the launch of B100 At-home system successful in the market.

Economic trends and expectations: While in South Asia the day starts with a cup of tea, in China it's herbal tea or warm water, in America it's a cup of coffee. Coffee is a beverage without which there is no concept of starting a day whether it's working men, women, students, housewives or senior citizens. Adley (2010) stated that according to National Coffee Association on average, 54 per cent of the American adult population consumed coffee beverages daily and on average an American drinks 3-1 cups of coffee each day whereas America is still maintaining its 8th highest level of coffee consumption in the world.

U. S Coffee market is constantly increasing where specialty coffee is the main highlight whose sales share is 8 % of the market and is jumping surprisingly 20 per cent per year.(Adley, 2010). Adley (2010) also pin pointed that the increasingly popular trend is shifted from Away-from-home towards At-home and 83% of the consumers brew their coffee at home due to awareness of greener, cheaper and anti-establishment alternative.

So the economic pointers suggest that a new brewer system for At-home consumers is definitely a good idea and has the potential to prosper in the current economic trends and consumer expectations.

Technology: Now technology is the one constant that keeps on evolving and if the company's brand is not technological sound or must be advance than the other competitors then there are no real prospects for the brand in the market. While looking at the technology used by the Keurig Inc. Anderson (2005) mentioned that Keurig single-portion system is design to well balance three key element amount, temperature and pressure of water to offer the consumer consistently superior taste of coffee. K-cups are designed such that one doesn't have to be concerned with how much amount of coffee would brew that perfect cup and as it is air tight, moisture resistant and for once use only so the quality of the content is not compromised and could stay fresh for 6 months.

The other big competitor of Keurig is Tassimo in single-cup service market. The technology used by Tassimo is slightly superior because they are using bar-coded smart technology which enables them to brew Latte, Cappuccino and Espresso (William, 2009).

Both of the companies' brewer system uses single-portion packs k-cups for Keurig and T-Disc for Tassimo. Both the system offer 8 ounce of the coffee from the system which necessitate least possible cleaning just remove the K-Cup or T-Disc and there is no mess at all and the system is good to brew next cup of your favorite flavor of coffee.

Keurig has taken special care in packing their K-cup to make sure that the quality of the coffee does not get depreciated before it is consumed by the customer. Whereas Coffee pods that are used in single serve brewer have special filter paper sealed together which is not affective whereas Keurig K-cups uses a patented technology that perforates through air tight k-cup and produce better coffee(Ebenezer, 2009).

In the Coffee market, the single cup At-home Brewer system is rapidly growing trend, 65% of the consumers takes their coffee in the breakfast (Adley, 2010). Most of which the consumers are preferring to brew coffee at home as they now have sophisticated and affordable options in the market.

Market Share and Competitors: Keurig is not alone in single cup brewer market. In 2003 both Salton and Keurig introduced first brew pack system by launching Melitta One and B100 system respectively in the market(Corporate development Associates, 2007). In their report Corporate Development Associate (2007) also mentioned that Sara lee introduced Senseo system, Procter and Gamble launched Home Café System and Nestle introduced refurbish Nespresso Program in 2003 whereas Kraft launched its patented product Tassimo in September 2005.

So now currently Keurig has to fight tough with all the above mention brands to even maintain its market share. Keurig is in the middle of Senseo of Sara Lee and Tassimo of Kraft (Anderson, 2005).

The gourmet Coffee market spawn around \$ 7 billion dollar in sales annually.

According to Anderson (2005) of the total Retail Coffee Market (\$ in billion)

At-home retail market was around \$ 6. 9 billion and At-home Gourmet  
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market is \$ 3. 1 Billion dollar so this gave the management clear identification that there is opportunity existing in the market to launch a new product and the market markers also showed the upward trend in the growth of the market.

Together, Procter & Gamble and Philip Morris/Kraft hold 68% of the entire market, although they primarily target the non-gourmet coffee consumer (Anderson, 2005 ).

Keurig must utilize a marketing strategy that creates a competitive advantage, thus taking

away market share from other companies and attracting those customers to gourmet

coffee and brewing systems.

While the entire coffee market seems to be an oligopoly with Procter & Gamble

and Philip Morris/Kraft as the main competitors, Keurig is targeting a more up-scale

audience of gourmet coffee drinkers. Here, it is important to define the relevant target

market and competitors within that market. In the gourmet sector of the coffee market,

perfect competition does not exist; not all products offered are exactly the same. Instead,

this is monopolistic competition. Products and whole marketing mixes contain

differences between companies, models, and pod systems. This gives the competitors

pricing options (McCarthy et al. 2005).

In this monopolistic competition, Keurig's K-Cup (or Keurig-Cup) system and brewer match up very well against the competition. Keurig has some significant advantages over the competition; there are, however, areas in which Keurig trails. For example, when comparing the brewers of Flavia and Melitta, a subsidiary of Salton, the main difference is in the size of cup brewed. Melitta and Flavia both offer the user a choice between a strong five-ounce cup and a weaker eight-ounce cup. Keurig's B100 only offers the eight-ounce choice (Davids). However, Keurig is viewed to have the upper hand over these two companies because they offer the consumers a greater variety of coffees and a better quality coffee with every cup.

In the up-scale sector of multi-cup brewers, competition includes Cuisinart, Krups, Braun, DeLonghi, and Bunn (Anderson, 2005 ). The consumers of these up-scale

brewers are those that Keurig will target and attempt to show the appeal of one-cup

technology.

Moreover Keurig's 85 % of the sales is expected to be coming from single cup brewer and the growing rate is also expected to be maintained at 100% and company is expecting to reach at 3.7 million homes and they believe that the single cup brewer can reach upto 20% of the U. S brewer (Notable Calls, 2009).

Keurig has a sound place in the market and its products if maintain the quality of the coffee delivered than there is no doubt that the product will not only do good for itself but it will also helps Keurig to uplift its position in the market.

Company's Strategy: Keurig's Strategy is simple and straight-forward and that is to provide the consumer with the best quality of cup of coffee in the comfort of their home and in minimum time (1 min to brew a cup in preheat Brewer) and affordable price.

Firm's marketing Strategy: The Company is thinking to utilize direct marketing approach with this new B100 Brewer System. Although for Away-Home sector the company used intermediaries and those are called Keurig Authorized Distributors (KAD). These KADs are responsible for installing and maintaining the system. KAD's are used to maintain relationship with office managers and take their feedbacks but this time Keurig cannot afford to retail the product so direct marketing approach is taken into consideration but the approach can't be a success without the KADs which are currently supposing this direct marketing approach will reduce their influence

(Anderson, 2005). The product promotions are done independently and even <https://assignbuster.com/managing-a-new-product-launch-the-issues-marketing-essay/>



distribution needs either direct distribution or huge investment to make brewer's single portion pack available to the consumer. According to Anderson (2005) research has also shown that the new brewer product is "demonstration driven" so the company has to think about the best way to demonstrate to the target market (At-home consumers). So in direct marketing a website would be launched along with e-mails but even in this KAD'S assistance is required as they have relationship with office managers which have the employees' information. So when Away-Home/OCS consumers' list is made available then promotional e-mails would be sending to them because Keurig is aiming the target market which will emerge from Away-Home/ OCS.

### **Product Life Cycle:**

**Product:** The product is in its introduction stage in product life cycle and as the company is entering in a new market segment. Generally the new product in new segments tends to emphasis more on promotion, product and place so it is hard to make any considerable profit. But it is projected in market survey that the sales of the Keurig in single cup segment will tend to increase each year (Anderson, 2005).

**Price:** Price is very crucial factor for Keurig's B100 system and K-cups/Keurig-cup. In the market survey it was seen that the coffee drinkers consuming two or more cups per weekday are willingly to pay higher than the drinkers consuming one cup. Drinkers consuming more than two cups of coffee are even more likely to pay more for their individual cup and it is also showed in the survey that the coffee consumption tends to increase due to the

charisma of Keurig's B100 it can be predicted the single cup per weekday  
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consumers will also join 2+ cups per weekday consumers. The survey showed that price 2+cup consumers willingly to pay for the brewer system is \$ 130 (Anderson, 2005)

The price elasticity of demand is tends to be higher because of the competition in the market. Most of the competitors brands are offer the brewer system lesser in price or in the same price vicinity. The Average Coffee pod machine cost range between \$ 69-100 and per 8 oz Cup average is \$0. 20. Keurig entry level average cost is \$ 99 and its 8 oz single cup costs \$0. 40 whereas Tassimo entry level cost is \$ 129. 99 and its specialty coffee cost is \$1. 12 per cappuccino (No wonder it's the 3rd ranging brand) and even Nespresso entry level cost is \$ 199. 99 and its 8 oz cup cost \$ 1. 00(Jay, 2006) and taking into consideration that the manufacturer are predicting price nothing less than \$ 200 for new B100 the market seems to be less acceptable. If the K-cup prices could be adjusted so the consumer can be motivated to even buy once expensive system to get a cheaper per cup coffee rate then the product have the potential of penetrating the market.

Promotion: The best promotional activity for K-Cups is to offer discounts when buying cups. For example, a discount could be offered through free shipping and handling when total cup purchases are over a certain dollar amount. Another possibility is to offer 25 cups at regular price and half off on the second 25 purchased. When we are talking about the Brewer as mentioned earlier that Internet survey suggested that demonstration is the best possible way so the key factors of interest to promote include convenience, quick brewing, ease of use, and minimal cleanup, all of which are sources of dissatisfaction with at-home users' current systems. Young  
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male are the most likely to buy the system. The key elements Keurig must implement into its promotion strategy for the B100 include being one of the first entrants into the at-home market, being portrayed as a single-cup pioneer, and enhancing its visibility in the up-scale market (Anderson, 2006).

If in promotion it is been emphasized that Keurig is the one who thought about their At-home customers, with all the features elaborated enough and to make people aware that Keurig is offering various different flavor from five roasters then the customer will be compelled to buy.

Place: Keurig already has its retail distribution network supported by KAD for OCS market but as Keurig now doesn't have the sources for retail outlets so there is need of applying a control distribution strategy. The strategy could be that the roaster would sell directly Keurig-cup to consumers and indirectly to the KADs. KAD will sell the cups directly to the OCS employees owning an at-home system as well such that KADs business is also not affected. Here the two cup approach seems to be going little overboard as the main concern is to maintain lower production and inventory cost and as the competition is already pricing lower than at which KAD is selling to OCS then any cost increment in K-cup price could decrease their sales. The Brewer system could be launch and sold via e-commerce enabled website which would be cheaper than retails outlets and is best suitable option. An e-commerce website could also be used to sell K-cup and the website can be promoted by putting special discount if consumers buy the product online. Advertising on the web is also cheaper than the billboard, banners and posters. Even the company can earn revenue by running the ads of the third party on our websites borders. So e-commerce website is the best new <https://assignbuster.com/managing-a-new-product-launch-the-issues-marketing-essay/>

distribution channel possible which can also provide the company with competitive advantage.

Problems and Issue Suggestions: In the very Beginning the main issues and problem facing by the company for the launch of its new brewer B100 system were elaborated. Now after analysis the market, competitor's products, distribution channels, pricing, economic and consumers' trends following are the suggestion/recommendations;

Among the production issues the primary one was because Keurig wanted to pursue direct marketing approach they thought of a two-cup theory will despite of solving the issue raised some serious one with GMCR (Green Mountain Coffee Roaster). In the light of the fact one-cup approach seems to be more effect, efficient and saves the manufacture unnecessary production and inventory cost.

Now talking about the price according to the sales projection the breakeven prices are \$199, \$249 and \$299 and as our B100 manufacturing cost is about \$220 (trying to make it \$ 200) so if the price is set at \$ 249 then there is a possible option that in future if it is required the prices can be lowered.

Based on the research it can be concluded that target market is agreeable to pay \$0. 55 per cup. At this price the KADs can maintain their price control in OCS market and Keurig and roaster can make higher profit per k-cup.

Last but not the least the marketing efforts to give our product nice launch and high penetration in the market would be to place demonstration desk in the public places likes malls, airport, professional conventions etc. referral

program could also be helpful in this regard. Using a website will provide an opportunity to the company to reach the consumers far off because KADs only deals within their districts so through website consumers from all across the country would be able to buy directly from the company and hence the sales would be elevated resulting in higher revenue generation and greater market share.

Conclusion: Keurig new brewer B100 system is innovative idea for At-home consumers and it has the potential to sprang into a major market success, but GMCR has shown some serious and relevant concerns about two cups approach which even in our point of view is neither suitable now profitable to both the company and the roasters. Some new marketing ideas are also been recommended like demonstration stalls in public places and professional conventions. There was also a pricing issue according to our recommendation the price if set higher can be lowered so initial price should be \$ 249 because the manufacturing cost incurring is around \$ 220. Lastly it is thought to a very wise approach to launch B100 through direct marketing via internet and in this way consumers can directly buy from the company and company can take benefit from disintermediation and even earn some extra money by running ads of third party on its website. These recommendations are suggested by serious evaluation of facts and figure, trends and customer satisfaction criteria and must be considered gravely.

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