

Keurig: managing a new product launch essay

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Keurig: Pull offing a New Product Launchl.

IntroductionEveryone has a forenoon rite while acquiring ready for the day's activities. Some people exercise. Some people shower. Some people help acquire their kids ready for school.

Some people watch the intelligence or listen to traffic studies. Some people drink java. In fact, in 2001, 20 million Americans drank gourmet java on a day-to-day footing (Sherry) . Keurig, Inc.

was founded on the thought that java lovers should be able to brew and bask one perfect cup of java at clip. With the constitution of gourmet java houses like Starbucks, consumers began stretching their pocketbooks a bit more by disbursement on mean \$ 1. 50 or more for a cup of gourmet java (Anderson 4) . This alteration in consumer behaviour opened the door for Keurig to offer gourmet javas by the single-cup in offices in 1998.

Keurig noticed that from 1996 to 2000 epicure java gross revenues increased by 40 per centum in the U. S. at-home java market. This statistic persuaded Keurig's direction to develop an at-home, one-cup java beer maker specifically for gourmet java lovers (Anderson 15) . Keurig's development advancement toward the launch of their first at-home brewing theoretical account was stunted in February of 2003, six months prior to the release day of the month of the beer maker.

by company stockholder Green Mountain Coffee Roasters Inc. This paper will turn to Green Mountain Coffee Roasters' concerns and supply

recommendations and alternate solutions to debatable pricing and selling quandary. In add-on to our analysis.

we are traveling to analyze the presenters' attack and review the options they suggest. 3II. Premises In analysing the selling schemes and launch options of Keurig.

Inc. . we are runing under the undermentioned premises: • Surveies and market testing were completed with professional services and accurately reflect the current feelings of the consumers at the clip of proving. • The description of the java drinkers/customers is right. • Keurig is outsourcing the fabrication of their beer makers.

• Keurig has already incurred design and fabrication cost of their Keurig-Cup and brewer of \$ 700. 000 (\$ 400. 000 for development of the new cup-based engineering.

and \$ 60. 000 per Keurig-Cup packaging line. presuming one line per each of Keurig's five roasters) . • The maker of the B100 included all variable and fixed costs in their computation of the unit costs for fabricating the B100 beer maker.

• The costs of the B100 beer maker. as reported by the maker. are \$ 220 at the clip of Mr. Lazaris' run intoing with GMCR direction. The maker is trying to take down those costs to \$ 200. but this has non yet been achieved. 4III.

History Timeline of Keurig. Inc. and the North American Coffee Market

Mid1940s • Peak of java ingestion (16.

5 lbs per capita) • Popularity of soft drinks causes java ingestion to worsen
 Mid 1990s • All-time depression of java ingestion (6.1 lbs per capita)
 1992 • Keurig's origin Late 1990s • Gourmet coffeehouses reinvigorate the market
 • Keurig introduces its single-cup brewing system (B2000 theoretical account) ; 8 assortments of java offered • 14.8 % of beer maker distributors offer a single-cup system for the Office Coffee Service (OCS) market
 • 44.8 % of beer maker distributors offer a single-cup system for the OCS market
 Filterfresh establishes relationship to market Keurig's commercial beer maker. therefore making a system with greater assortment of javas and teas • (February) Ownership construction alterations ; three largest stockholders become Van Houtte. Inc. (28 %) .

Green Mountain Coffee Roasters. Inc. (42 %) . and Memorial Drive Trust
 John Whoriskey joins Keurig as the GM of the at-home Division Keurig's roaster spouses ship more than 125 million K-Cups Total K-Cup cargo since the launch rises over 340 million Keurig begins working on a line of teas (T-Cups) ; the first line is to be " Celestial Seasonings" trade name teas
 OCS market reaches \$ 3.46 billion in entire gross Keurig's entire figure of beer makers shipped across North America reaches 33.

000sixties 1998 2000 2001 2002 ••••• 2003 ••••• 20 million Americans are imbibing gourmet java on a day-to-day footing (February) Keurig sets plans to establish B100 system in the at-home market Entire single-cup beer maker arrangement in the OCS market reaches 143. 200 Keurig additions roaster partnership to five.

therefore supplying the largest assortment of javas for a single-cup brewing system⁵IV. SWOT1. Two-Cup Approach with Brewer Strengths • Does not endanger the KADs and the OCS market • Adds control of pricing – specifically for the Keurig-Cup • Increases the likelihood of managers' engagement in in-office publicities of the Keurig at-home system. because the distinction would forestall larceny of K-Cups provided for office ingestion. Failings • Don't confuse the purchaser.

Similarity between cups can do confusion between which cup goes with which beer maker. • Increased stock list for roasters • Lack of presentation ability in retail sector – Keurig-Cups not available for purchase in retail shops • Lack of resources to properly market and sell brewer and Keurig cup in retail mercantile establishments Opportunities • No alteration or continued growing in OCS market = more available resources for spreading distribution of at-home market into the retail sector Menaces • Brewer pricing does not diminish and competition enters with a lower pricing scheme ; Keurig suffers big losses. 6 • The beer maker pricing is so high that breakeven sale point is not met. doing Keurig rely on Keurig-Cup gross revenues to do up for losses from brewer gross revenues. This scenario consequences in the beer maker going loss leader. 2.

One-cup Approach with Brewer Strengths • Allows speedy entry into the at-home market before competition • Less client confusion • Roasters not required to maintain two separate cup stock lists (one stock list for OCS market and one for at-home market) • Roasters' production degrees will likely increase with the addition in demand. since the at-home market will

include KADs and at-home consumers. Failings

- Could ensue in disaffection of the OCS K-Cup channel
- Decrease in control of pricing with the KADs

Opportunities

- If Keurig is able to come in the market rapidly, so they have more chance and clip to come out with smaller and cheaper beer makers.

- Easier to come in the retail market in the hereafter because of less overall costs

Menaces

- Brewer pricing does not diminish and competition enters with a lower pricing scheme ; Keurig suffers loss of market portion.
- Lack of resources to market and sell beer makers and cups through retail mercantile establishments at clip of launch
- OCS users experience loss from K-Cup larceny and therefore it is not economical for offices to utilize the Keurig system.

V. The Market

As shown in our diagram below, the overall java market is huge and turning. The gourmet java market generates around \$ 7 billion dollars in gross revenues yearly. Harmonizing to these statistics,

there is a market, in footings of sum of java consumed, for Keurig's single-cup beer maker. However, Keurig is not the lone company with their oculus on the single-cup market. Several others are seeing the growing potency and are developing their aim at-home one-cup beer makers. This subdivision will dig more into the java market as a whole and the competition that is disputing Keurig. 1.

Market Analysis/Needs/Growth 2000 Total Retail Coffee Market (\$ in one million millions)

Other. 4. 6 billion

At Home – Retail. 6. 9 billion

Away from Home – Retail. 3. 9 billion

At Home – Gourmet. 3.

1 billion(Anderson 6)82. CompetitionIn the Away-from-Home single-cup market. Keurig has two primary rivals: Filterfresh Coffee Service. Inc. and Flavia. Filterfresh. subordinate of Van Houtte. Inc.

. was the innovator of the one-cup java brewing system. presenting the engineering in the 1980s. Although Filterfresh was the first to present a single-cup beer maker. their system left much room for betterment.

The hopper it used made clean-up and recharging java beans necessary (Anderson 5) . Keurig's debut of the K-Cup enhanced the one-cup system to something better and more convenient for users. Similar to Keurig's system. Flavia's focal point is besides on easiness of usage.

Flavia offers a assortment of 24 javas in single. foil-sealed Filterpacks (Anderson 6) . In the at-home single-cup market. Keurig faces greater competition. Both Salton and Sara Lee program to come in the at-home market. and there is guess that both Procter & A ; Gamble and Nestle may make so every bit good.

The pricing of Procter & A ; Gamble. Nestle . and other competitors' beer makers and java cods is much lower than the proposed pricing of Keurig's. They besides plan to sell through mass retail and grocery mercantile establishments (Anderson 8-9) . Salton's place theoretical account retails at \$ 49.

Sara Lee's at \$ 70. and Procter & A ; Gamble is expected to monetary value likewise upon come ining the market (Anderson 8) . Keurig does non presently have the resources to vie in these retail markets. so one of

Keurig's challenge is in making meaningful merchandise distinction to convey their brand to the up-scale market. In looking at the undermentioned exhibit, we can see that there is stiff competition in the general java market: 2000 Coffee Market Share

Company	Share (%)
Private Label	8
Community Coffee	2
Tetley	2
Procter & Gamble	36
Chock Full o' Nuts	3
Starbucks	4
Nestle	5
Philip Morris/Kraft	32
(Anderson 18)	Together.

Procter & Gamble and Philip Morris/Kraft keep 68 % of the full market, although they chiefly aim the non-gourmet java consumer (Anderson 18). Keurig must use a selling scheme that creates a competitive advantage, therefore taking away market portion from other companies and pulling those clients to gourmet java and brewing systems. While the full java market seems to be an oligopoly with Procter & Gamble and Philip Morris/Kraft as the chief rivals, Keurig is aiming a more up-scale audience of gourmet java drinkers.

Here, it is of import to specify the relevant market and rivals within that market. In the epicure sector of the java market, perfect competition does not exist; not all merchandises offered are precisely the same. Alternatively,

this is monopolistic competition. Merchandises and whole selling mixes contain differences between companies, theoretical accounts, and pod systems.

This gives the rivals pricing options (McCarthy 96) . In this monopolistic competition. Keurig's K-Cup (or Keurig-Cup) system and beer maker match up really good against the competition.

Keurig has some important advantages over the competition ; there are. nevertheless. countries in which Keurig trails. For illustration.

when comparing the beer makers of Flavia and Melitta. a subordinate of Salton. the chief difference is in the size of cup brewed. Melitta and Flavia both offer the user a pick between a strong five-ounce cup and a weaker eight-ounce cup.

Keurig's B100 merely offers the eight-ounce pick (Davids) . However. Keurig is viewed to hold the upper manus over these two companies because they offer the consumers a greater assortment of javas and a better quality java with every cup. In the up-scale sector of multi-cup beer makers.

competition includes Cuisinart. Krups. Braun. DeLonghi. and Bunn (Anderson 8) . The consumers of these up-scale beer makers are those that Keurig will aim and try to demo theentreaty of one-cup engineering. VI.

Keurig Marketing StrategyAll companies need a selling scheme upon come ining a new market. In Keurig's instance. they had a successful selling scheme for the OCS market already in topographic point by the clip they decided to interrupt into the at-home market.

Below. we will discourse Keurig's attack to marketing their B100 beer maker.

1. Target MarketAs Keurig decided whether or non to establish their

merchandise into the at-home market. they looked at the statistics for the United States retail at-home java market. The consequences were really promising.

In 1996, gourmet java gross revenues were at \$ 2. 200 million. Four years subsequently, in 2000, the gourmet java gross revenues had increased by 40 per centum to \$ 3. 100 million.

Besides, in 2000, about 320 million lbs of gourmet java were sold in the United States, a 25. 5 percent addition in lb ingestion by volume from 1996. These big encouragements in the market's gourmet java country proved to Keurig that this market was and would go on to rapidly spread out.

Keurig needed to happen out if their single-cup coffee maker would be accepted by gourmet java consumers (Anderson 15) . U. S. Retail At-Home Coffee Market

Year	1999	2000	2001
Gross sales (\$ in 1000000s)	3800	2800	3000
Pound Volume (in 1000000s)	1998	3975	2500
	1997	4205	2200
	1996	3905	0500
	1000	1500	2000
	2500	3000	03500
	4000	4500	

Coffee Gross sales (\$ in 1000000s)

Year	1999	2000	2001
Gross sales (\$ in 1000000s)	850	290	300
Pound Volume (in 1000000s)	1998	830	270
	1997	784	525
	1996	850	0100
	2003	00400	500600
	700	800	900

Pound Volume (in 1000000s)

From 1999 to 2001, Keurig carried out market research surveys to find the acceptableness of their merchandise to the at-home consumer.

The research was conducted in several different formats. There were intercept and internet studies, studies of current OCS users, and concentrate groups of at-home trial users (Anderson 7) . The consequences of the

intercept studies. whose respondents had to imbibe at least one cup of gourmet java per twenty-four hours.

showed that over 75 per centum would see buying a system like Keurig's. The cyberspace study besides proved that a presentation of the Keurig theoretical account increased the likeliness of a sale from 75 to 90 per centum. The same people. who saw the presentation. indicated that they would pay \$ 0.

55 for a K-Cup and \$ 130 for the B100 beer maker. For more information on pricing. see subdivision VII.

The internet-based study helped place Keurig's " core customer" group as younger males (Anderson 7) . Through intercept. cyberspace. and place usage studies. Keurig was able to find the cardinal factors in marketing their beer maker and K-Cups.

Key elements identified through presentation during the intercept studies included speedy brewing clip and minimum clean-up. The same cardinal elements were identified during the internet-based study. The13place usage examiners.

who had a commercial beer maker placed in their place. non merely identified velocity and clean-up as cardinal properties but besides gustatory sensation consistence. java assortment. and cleanliness of readying (Anderson 7-8) . Now that Keurig is cognizant of which market and type of consumer to aim.

every bit good as which facets of their merchandise are most valued. they can travel in front with their selling program of the at-home B100 beer maker. 2. Merchandisei. K-Cup (or Keurig Cup)Keurig's patented K-Cup is a alone part system that contains land java beans and filter paper.

A assortment of javas are available for the system. reflecting the choice available in epicure cafes. In 1998. when Keurig launched their commercial beer maker. they offered eight assortments of java.

In 2003. Keurig is now able to offer the largest assortment of javas for any single-cup system in the market. K-Cups are produced by five roasters boxing six entire trade names. therefore doing available over 75 assortments of java (Anderson 2) . Keurig is besides be aftering to establish a assortment of teas. TCups (Anderson 4) . During the February advancement meeting with GMCR's direction.

the executives of Green Mountain expressed some concerns to Mr. Lazaris about the inside informations of the B100 launch. GMCR is Keurig's strategic spouse and concern investor. The concerns included GMCR's fright of perplexing the production of part battalions with the two-cup attack. This would besides impact stock list degrees and warehousing. GMCR was besides fearful that client dissatisfaction would ensue from utilizing the incorrect part battalion in a Keurig beer maker. The direction squad expressed their wants to maintain a one-cup¹⁴attack based on their desire for " long-term simplicity" and the ability to travel rapidly into the one-cup.

at-home brewing market (Anderson 10) . We feel Keurig has a strong statement against a cosmopolitan K-Cup. The company is fearful that office directors in the successful OCS market. an of import selling channel for the at-home system. will non back up Keurig's utilizing the same K-Cup for the place beer maker. This fright exists because employees having an at-home Keurig system could be enticed to steal K-Cups from the office's supply (Anderson 10) . The proposed two-cup system increases the likeliness of office directors to take part in publicity of the Keurig at-home system because the menace of K-Cup larceny would be eliminated.

However. the proposed K-Cup (OCS) /Keurig-Cup (at-home) bundle distinction has some jobs. First.

the colour of the cups will be different. sunburn for at-home and white for away-from-home (Anderson 9) . We feel the colour differentiation is necessary if the two-cup attack is chosen. but the two colourss chosen by Keurig are excessively similar and the purchaser would be easy confused.

There is possible for client dissatisfaction if the incorrect cup is purchased and used in the incorrect beer maker. We agree with GMCR direction after looking at the benefits of utilizing the bing commercial part battalion. the K-Cup. in both the away-from-home and at-home markets. The chief benefits are that the purchaser will non be confused by the two-cup attack and roasters will non hold to hold two separate stock lists for Keurig merchandises. two. B100 BrewerThe new B100 theoretical account from Keurig is a radical new single-cup brewing system aiming at-home users.

Entering the at-home market with this theoretical account is of import for Keurig.

as java shapers represent one of the largest volumes of little contraptions sold for usage in the place (Anderson 6) . A cardinal component of this beer maker is that it provides the user a important sum of control over the sum of java and the temperature and force per unit area of the H₂O. This consequences in the perfect cup of java every clip. The spirit profile from each joint of java is recreated on a consistent footing. Besides. the velocity of brewing a cup of java. " perfection in under a minute. " is a cardinal factor for the possible success of Keurig's at-home brewing system (Anderson 3-4) .

three. Product Life Cycle Keurig's B100 is presently in the debut stage of the merchandise life rhythm. Although they have been in the OCS market since 1998. the B100 is designed for the athome market. Keurig is come ining a new market and a new merchandise life rhythm. Generally. in the debut phase.

companies generate losings because fiscal resources are focused on publicity. merchandise. and topographic point to set up the new merchandise in the market (McCarthy 271) .

ITwo I)II)III)IV)ThreeFourIntroductionGrowthMatureDecline3. Topographic pointi. K-Cup (or Keurig-Cup)KADs supply a assortment of javas to offices for their Keurig OCS system. Each KAD has entered into direct relationships with one or more roasters to buy K-Cups and later sell them to office directors.

16As stated earlier. Keurig does not yet have the resources to sell either their beer maker or java in mass retail mercantile establishments.

Alternatively, a controlled distribution scheme must be utilized. Roasters will sell Keurig-Cups in direct (to consumers) and indirect (to KADs) markets.

KADs will, in bend, sell the cups straight to OCS employees having an at-home system (Anderson 10) . Keurig's rapid incursion into the OCS market and the usage of many dependable distributors and KADs has given the company a good reputation.

This, in bend, makes coming into the at-home market on the coattails of the office market a feasible concern. We believe that the distribution channel that Keurig is suggesting for the two-cup attack is logical, yet jobs arise when covering with the roasters' concerns about its complexity.

We agree with GMCR that it appears the two-cup attack would be inefficient when the end is to maintain production and stock list costs down. Keurig's competition is already pricing below the K-Cup monetary values at which KADs sell to the OCS market. If production and stock list costs were to increase, the cost of the K-Cups would besides likely addition, doing concern for a possible lessening in cup gross revenues.

two. B100 BrewerKADs play the primary function in functioning the OCS market. Commercial beer makers are purchased by KADs from Keurig at sweeping monetary values ranging from \$ 500 to \$ 1,000 and are placed in offices for free or for a low rental fee in exchange for ongoing java gross revenues.

The KAD is so responsible for ongoing care and fixes to the beer maker (Anderson 5) . Another major distribution job that Keurig faces is in their deficiency of being in retail channels. Keurig needs to rapidly happen a feasible agencies through which to establish¹⁷the sale of the B100 into retail mercantile establishments. The lone current option is “ e-commerce-enabled” Web sites. (Anderson 9) . three.

Market SegmentationWe segmented the java market into a comparing between the monetary value of the beer maker and the assortments of cups/pods offered. As shown below. Keurig has its ain niche. While they are the highest in monetary value. they besides have over 75 assortments of javas and teas. Procter & A ; Gamble¹.

Salton. and Sara Lee are all clustered in the same section of the market. Their beer makers are cheaper in monetary value compared to Keurig. but P & A ; G offers the greatest assortment with merely 15 javas and teas available.

Wide VarietyLimited AssortmentHigh Monetary valueLow PriceLegendKeurigP & A ; GSalton/MelittaSara Lee/Senseo¹Procter & A ; Gamble does non presently manufacture beer makers. but harmonizing to the instance. if they decide to present a brewing system. they will monetary value likewise to Salton and Sara Lee.

The brewer cods they package are compatible with other brands' single-serve java systems. ¹⁸4. Promotioⁿi. K-Cup (or Keurig-Cup)We feel the best promotional activity for K-Cups is to offer price reductions when purchasing

cups. For illustration, a price reduction could be offered through free transportation and managing when entire cup purchases are over a certain dollar sum.

Another possibility is to offer 25 cups at regular monetary value and half off on the 2nd 25 purchased. two. B100 Brewer The market research commissioned by Keurig shows that the best manner to derive involvement in the system is through presentations ; 90 % of those surveyed indicated that the presentation increased their likeliness of purchasing the merchandise. The cardinal factors of involvement to advance include convenience, speedy brewing, easiness of usage, and minimum killing, all of which are beginnings of dissatisfaction with at-home users' current systems.

Through the internet-based study, it has been shown that the B100's nucleus clients are younger males. The cardinal elements Keurig must implement into its publicity scheme for the B100 include being one of the first entrants into the at-home market, being portrayed as a single-cup innovator, and heightening its visiblens in the up-scale market (Anderson) . Keurig's B100 system has the possible to prehend a big part of their mark market if it is promoted good. One strength of Keurig's promotional scheme is that they are taking to be the first entrant into the at-home gourmet java market. They believe that being the single-cup innovator will heighten the system's visiblens in the up-scale market.

Another strength of Keurig's promotional scheme is that by partnering with five different roasters, they can offer the largest assortment of javas and teas in the at-home market. 19 While these factors strongly support Keurig's

promotional scheme. there are several failings with the remainder of the program. One such failing is that they do not utilize their motto or the beginning of their company name to their advantage. " Deliciously Simple" is a great motto that emphasizes the two major subjects of java advertisement: ' good taste' and ' positive stimulation' (Anderson 6) .

The motto besides touches on the fact that the system is really easy to utilize. In add-on. the word ' Keurig' is Dutch for ' excellence. ' Having your company's name associated with excellence can be another great selling tool. Keurig is presently not making everything it can to aim its nucleus clients. Promotion needs to be geared toward these younger males.

One manner to accomplish this would be to purchase publicizing infinite on assorted Web sites. from athletics to stock and fiscal sites. Since market research has shown that presentations are an important manner to increase system involvement and buying possible.

Keurig needs to use this avenue. Although it is stated in the instance that Keurig does not presently have resources to sell through retail stores. which are premier locations for presentations. possibly they should put up presentations at professional conventions. airports. busy shopping promenades.

and high-end contraption shows. There are besides two promotional activities that Keurig can offer to their purchasers in order to increase their client base. The first promotional offer is a referral plan. When a first-time purchaser goes onto Keurig's Web site to buy K-Cups or a beer maker. there

would be a topographic point to type in the name of the individual who referred them.

That referral individual and the new Keurig B100 proprietor would so have \$ 25 in free K-Cups. The 2nd promotional offer would be to use point of purchase sites in the OCS market²⁰ by giving \$ 50 instant discounts to lure purchasers to put in the Keurig system for their at-home enjoyment (Anderson 19) . 5. Pricing. K-Cup (or Keurig-Cup) When looking at the consequences of Keurig's market research, it is apparent that those java drinkers devouring two or more cups per weekday are more willing to pay a higher monetary value for each cup of java than those coffee drinkers devouring merely one cup per weekday. These consequences can be confirmed by looking at the undermentioned saloon graphs.

The first graph, K-Cup (or Keurig-Cup) Pricing Based on Coffee Consumption, displays the willingness of one-cup and 2+ cups per weekday java drinkers to pay for a K-Cup (or Keurig-Cup) . These consequences show that 2+ cups per weekday java drinkers are much more willing to pay higher monetary values for their cups of java than the one-cup drinkers.

While this study includes merely those consumers who were really or slightly likely to buy the system, we can see that there is an important difference between the responses for the two java imbibing sectors (Anderson 16) . K-Cup (or Keurig-Cup) Pricing Based on Coffee Consumption⁵.

1\$ 0. 55 +14. 616. 7K-cup (or Keurig-cup) Pricing\$ 0.

50- \$ 0. 5430. 720. 5\$ 0. 45- \$ 0. 4933.

622\$ 0. 40- \$ 0. 441 Cup/Day2+ Cup/Day41.

528. 2\$ 0. 35- \$ 0. 3948.

241\$ 0. 30- \$ 0. 3458. 560.

3\$ 0. 25- \$ 0. 2975. 601020304050607080Accumulative Percentage of Respondents21We can foster demo that 2+ cups per weekday drinkers are more willing to pay a higher monetary value for their single cups of java by looking at the following two graphs comparing K-Cup (or Keurig-Cup) pricing and brewer pricing between one-cup and 2+ cups per weekday consumers. These graphs suggest that those 2+ cups per weekday java drinkers. who are more willing to pay a higher (\$ 130+) monetary value for a beer maker. are besides more willing to pay a higher monetary value for their cups of java (Anderson 16) . Brewer & A ; K-Cup (or Keurig-Cup) Pricing Based on Coffee Consumption (1 Cup/Day Consumption)1.

25. 9\$ 0. 50+10.

6K-Cup (or Keurig-Cup) Pricing4. 72. 4\$ 0. 40- \$ 0. 492. 42. 4\$ 130\$ 100- \$ 129& It ; \$ 100. 008.

2\$ 0. 30- \$ 0. 397. 15. 99. 4& It ; \$ 0.

3034. 100Don't Know5. 90510152025303540Percentage of RespondentsBrewer & A ; K-Cup (or Keurig-Cup) Pricing Based on Coffee Consumption (2+ Cups/Day Consumption)10.

1\$ 0. 50+9. 59. 9K-Cup (or Keurig-Cup) Pricing1. 9\$ 0. 40- \$ 0.

492. 55. 75. 2\$ 0. 30- \$ 0.

39\$ 130+\$ 100- \$ 129& It ; \$ 1005. 36. 26. 3& It ; \$ 0. 308. 922. 20Don't Know06.

30510152025Percentage of Respondents22Since the study of the B100 system showed that at-home java ingestion increased with the presence of the Keurig beer maker. we can presume K-Cup (or Keurig-Cup) gross revenues will besides be higher than the norm of what one consumer drinks per twenty-four hours without the Keurig system. The study showed that per twenty-four hours ingestion averaged out to about 2. 25 cups per twenty-four hours with the Keurig system (Anderson 7-8) . While in this study K-Cup (or Keurig-Cup) pricing did non look to be an issue.

from the other market research conducted we can see that those gourmet java drinkers devouring 2+ cups of java per twenty-four hours are more willing to pay a higher monetary value for the K-Cups (or Keurig-Cups) . By looking at the graph above we see that they are besides more willing to pay \$ 130+ . the higher monetary value for the beer maker (Anderson 16) . From these analyses and the consequences of the K-Cup (or Keurig-Cup) pricing based on ingestion study. it seems like the ideal monetary value for a K-Cup (or Keurig-Cup) in the at-home market is \$ 0.

55 per cup. This monetary value would profit Keurig. the KADs. and the office directors regardless of whether a one-cup or two-cup attack is used.

Currently KADs are able to purchase K-Cups from the roasters at a monetary value of \$ 0. 25 and sell the K-Cups to office directors for \$ 0. 40 \$ 0.

50 per K-Cup. From the \$ 0. 25 paid to the roasters. Keurig is paid a \$ 0.

04 royalty on each cup sold (Anderson 5) . If the at-home K-Cups (or Keurig-Cups) are sold at a monetary value of \$ 0. 55 to the at-home users through either the roasters or Keurig, the inducement to office directors to purchase K-Cups from the roasters or Keurig is eliminated because they can purchase more cheaply through the KADs. This pricing scheme gives the KADs pricing power in their OCS market. Based on the market research it appears that regardless of whether Keurig decides on a one-cup or two-cup scheme, the pricing of the at-home part battalion should be 23\$ 0.

55. As stated earlier, if the one-cup option is chosen, the office directors and KADs will still hold the benefit of a favourable monetary value favoritism scheme by Keurig.

While the KADs have no existent inducement non to increase their K-Cup pricing to fit that of the online merchandising monetary value of \$ 0. 55, a rise in the monetary value of K-Cups would likely discourage office directors from purchasing a big sum of K-Cups or putting in Keurig's OCS at all.

However, if the KADs are able to increase the monetary value of the K-Cups they sell to the OCS market to \$ 0. 55.

there is still no inducement for the office directors to purchase from any topographic point other than their KAD. Harmonizing to Keurig Authorized Dealer Bob Spangler, all Keurig beer makers sold, leased, or used through KADs are done so through contractual understandings in which the user can merely purchase brewer supplies through the KADs. If an office director were

to purchase K-Cups straight from a roaster or Keurig. it would be a breach of contract and evidences for remotion of the Keurig system.

These contracts non merely protect the KADs gross revenues of K-Cups. but they besides protect the users because the contracts stipulate that the KADs are responsible for all care and fixs to the beer makers while they are in usage. On the other side of this pricing agreement. at-home B100 users non in contract with a KAD will be able to buy their K-Cups for the monetary value of \$ 0. 55 through Keurig or a accredited roaster. While this monetary value is above the monetary value set by the KADs.

it seems to be a consensual point in all the studies conducted by Keurig. The market we are aiming with the Keurig at-home brewing systems are cognoscentes of java. These people know what they want and like in a cup of java. Keurig's big assortment of javas and teas enables pricing power in their K-Cups to appeal to these consumers. Keurig can enforce a higher monetary value for their java because the assortment offered is one of the most of import facets of the K-Cup entreaty. Of class. if the K-Cups were priced lower. the measure of 24K-Cups sold have the possible to be higher.

and the lower monetary value per cup of java might lure other people to put in the Keurig at-home brewing system. If Keurig would make up one's mind to travel in front with the planned two-cup scheme. the pricing for the at-home system Keurig-Cup should besides be \$ 0. 55. This pricing is optimum for the same grounds as for the one-cup option. The monetary value of the K-Cup would still be left to the discretion of the KADs. but since the Keurig-Cup would non be a replacement for the K-Cup in the OCS market.

there is no existent foreseeable pricing competition between the two different cups. A con to this option would be that consumers, putting in the Keurig at home system, could choose to purchase through KADs, diminishing net incomes that Keurig and the roasters could do through direct Keurig-Cup gross revenues. Other K-Cup (or Keurig-Cup) Pricing Options One option in the pricing of cups non discussed supra is to monetary value the K-Cups (or Keurig-Cups) at a degree similar to their competition. Market rivals like Salton, whose cods sell for \$ 0. 25, and Senseo, whose cods sell for \$ 0. 20 each, are marketing their epicure javas at a much cheaper monetary value (Anderson 9) . However, these cod monetary values are sometimes leading because the Senseo machine requires two cods to make one eight-ounce cup of java. If Keurig were to monetary value their cups at the Salton monetary value of \$ 0. 25 the KADs would non do any money from the gross revenues ; the sweeping monetary value of the K-Cups from the maker is \$ 0. 25, and Keurig would have less than their current \$ 0. 04 royalty. If Keurig were to monetary value about \$ 0. 40 to be competitory with the Senseo cods, gross revenues would be better but still inconsistent with the cup demand. As we have stated before, our chief mark market is focused on the serious epicure java drinker averaging a little more than two cups per twenty-four hours, and, harmonizing to market research, about five times²⁵as many people were willing to pay \$ 0. 50 for the cups than they were \$ 0. 40 (see saloon graph on page 23) . Either manner, if Keurig would make up one's mind to monetary value lower to be more competitory, the net income borders for all parties involved, except the roasters, would diminish. Yet since two of Keurig's roasters are stockholders, Green Mountain

Coffee Roasters. Inc. and Van Houtte. they would besides endure from Keurig's decreased net income borders. This bead in net incomes could besides do the KADs to non take part in the KAD referral plan for the B100. and if the KADs do non assist with marketing the B100 to the " Keurig-awares" in the OCS market. projected gross revenues for the beer maker will be really dissatisfactory. Keurig is really dependent upon their KADs to assist advance the B100 through word-of-mouth with their clients. so they need to concentrate on a pricing scheme that will non merely run into the demands of the possible B100 java consumers but that is non-threatening to the KADs. A pricing scheme that is focused on their competition is non the manner to run into this aim. two. B100 BrewerKeurig's end is to utilize value pricing in order to put a just monetary value degree for their selling mix that will give the mark market superior value through convenience. velocity. gustatory sensation confidence. and assortment. The benefits of Keurig's value pricing scheme is in giving their clients pleasant surprises in convenience and velocity of java readying while go oning to supply a systematically great-tasting gourmet java. Keurig's definition of their mark market. up-scale gourmet java drinkers. is really of import in thedevelopment of their pricing scheme (Anderson 6) . Besides critical to their pricing scheme is the acknowledgment and analysis of the competition within the retail at-home java market (see Section V-2) . 26Harmonizing to Keurig's selling stuffs. a flexible pricing policy is being used at point-of-sale shows to lure OCS users to buy the at-home system to carry through their pre- and post- work java cravings. It appears that the pricing aim of Keurig is oriented toward gross revenues. Their primary end refering the at-home market is to be the leader

and innovator in the up-scale, single-cup gourmet java brewing class. To assist accomplish their sales-oriented ends, Keurig plans to utilize push money allowances with their KADs through a KAD referral plan. These proposed allowances will include a \$ 15. 00 compensation for each at-home beer maker sale attributed to the KADs OCS histories. In add-on, the KAD will besides have a two-cent-per-K-Cup (or Keurig-Cup) rente on subsequent java gross revenues that Keurig makes to that client for three old ages (Anderson 12) . So, for illustration, if a B100 client drinks on mean one cup of java per twenty-four hours for three old ages, a KAD will gain \$ 21. 90 over the three twelvemonth rente period. Therefore a KAD will, on norm, do \$ 36. 90 per client for each B100 sold through their OCS histories. In the 4th one-fourth of 2003, when the B100 is scheduled to establish, it is expected that 60 % of the KADs will take part in the joint selling plan, with expected gross revenues of two beer makers for each office where advertisement is placed. Therefore, each KAD is expected to do at least \$ 74. 00 per office if they participate in the joint selling plan with Keurig. This net income does non include the dispersed KADs receive through the sale of K-Cups (or Keurig-Cups) to the clients. The pricing of the beer maker is a great concern for Keurig executives. Early market research has shown that consumers will pay greater attending to the pricing of the beer maker and will hold direct impact on consumers' willingness to purchase into the Keurig system. In monetary value testing of the beer maker, assorted monetary values were tested and besides recommended by participants. Those participants who really experienced a presentation of the B10027 and were informed that the mean monetary value of high-quality java shapers sold in the scope of \$ 69 – \$

149. responded with a willingness to pay more than \$ 130 for the beer maker. In another study given to day-to-day java drinkers over the cyberspace. a monetary value point of \$ 149. 99 was tested. This study resulted in a 9 % positive return placing those core-customers who would “ definitely buy” or “ probably buy” a system like the B100. Follow-up inquiries to this cyberspace study found that the mean monetary value these core-customers would pay for such a system was really \$ 125. Finally. an at-home usage trial was conducted in the places of gourmet java drinkers with a commercial theoretical account beer maker. During this trial. an acceptable monetary value scope for the beer maker was found to be in the \$ 129- \$ 199 scope. A monetary value transcending \$ 200 was found to be a monetary value point at which consumers began to see the beer maker as a luxury purchase. necessitating more consideration prior to buying (Anderson 7-8) . Costss involved with the production of the at-home system. with a two-cup attack. were found to be \$ 400. 000 for the development and design of the necessary tooling to thermoform the new cup bases for the Keurig-Cups and another \$ 60. 000 per roaster of K-Cups and Keurig-Cups for new parts for the packaging lines to enable production of both cup types. With five accredited roasters. entire costs of the new KeurigCup system with the B100 are \$ 700. 000. This is a sunk cost that should be omitted from cup pricing considerations because Keurig incurs the cost regardless of which cup attack is chosen. However. these costs should be factored into Keurig’s breakeven analysis for the B100 beer maker because the costs will be paid by Keurig irrespective (Jordan 313) . Past experiences with a former at-home beer maker designed by Keurig. the B1000. provided penetration into

unreassuring high costs and design issues from Keurig's fabrication spouse. Even with the cognition gained from past errors and jobs with the B1000, the most recent costs reported for the B100 from the fabrication spouse were projected to be \$ 220 per beer maker. With costs at \$ 220 per beer maker, breakeven measures for brewer gross revenues are as follows for the cardinal monetary value points of \$ 249 and \$ 299 (Anderson 11) :

Breakeven Analysis Parameter Values: \$ 249. 00 Unit Gross sales Price Fixed Costs: Unit of measurement Cost \$ 700. 000. 00 \$ 220. 00 24138 Breakeven Quantity Measure 0100001500020000230002400024138 Cost \$ 700. 000. 00 \$ 2. 900. 000. 00 \$ 4. 000. 000. 00 \$ 5. 100. 000. 00 \$ 5. 760. 000. 00 \$ 5. 980. 000. 00 \$ 6. 010. 360. 00 Gross \$ 0. 00 \$ 2. 490. 000. 00 \$ 3. 735. 000. 00 \$ 4. 980. 000. 00 \$ 5. 727. 000. 00 \$ 5. 976. 000. 00 \$ 6. 010. 362. 00 Net income - \$ 700. 000. 00 - \$ 410. 000. 00 - \$ 265. 000. 00 - \$ 120. 000. 00 - \$ 33. 000. 00 - \$ 4. 000. 00 \$ 2. 00 25000300004000070000100000 \$ 6. 200. 000. 00 \$ 7. 300. 000. 00 \$ 9. 500. 000. 00 \$ 16. 100. 000. 00 \$ 22. 700. 000. 00 \$ 6. 225. 000. 00 \$ 7. 470. 000. 00 \$ 9. 960. 000. 00 \$ 17. 430. 000. 00 \$ 24. 900. 000. 00 \$ 25. 000. 00 \$ 170. 000. 00 \$ 460. 000. 00 \$ 1. 330. 000. 00 \$ 2. 200. 000. 00 29 Breakeven Analysis Parameter Values: \$ 299. 00 Unit Gross sales Price Fixed Costs: \$ 700. 000. 00 Unit of measurement Cost \$ 220. 00 8861 Breakeven Quantity Measure 0500080008861 Cost \$ 700. 000. 00 \$ 1. 800. 000. 00 \$ 2. 460. 000. 00 \$ 2. 649. 420. 00 Gross \$ 0. 00 \$ 1. 495. 000. 00 \$ 2. 392. 000. 00 \$ 2. 649. 439. 00 Net income - \$ 700. 000. 00 - \$ 305. 000. 00 - \$ 68. 000. 00 \$ 19. 00 10000 \$ 2. 900. 000. 00 \$ 2. 990. 000. 00 \$ 90. 000. 00 150002000025000300004000070000100000 \$ 4. 000. 000. 00 \$ 5. 100. 000. 00 \$ 6. 200. 000. 00 \$ 7. 300. 000. 00 \$ 9. 500. 000. 00 \$ 16. 100. 000. 00

00\$ 22. 700. 000. 00\$ 4. 485. 000. 00\$ 5. 980. 000. 00\$ 7. 475. 000. 00\$ 8. 970. 000. 00\$ 11. 960. 000. 00\$ 20. 930. 000. 00\$ 29. 900. 000. 00\$ 485. 000. 00\$ 880. 000. 00\$ 1. 275. 000. 00\$ 1. 670. 000. 00\$ 2. 460. 000. 00\$ 4. 830. 000. 00\$ 7. 200. 000. 00Keurig and the B100 fabrication spouse are hopeful that, with extra technology attempts, the production costs can be reduced to \$ 200. 00. Another breakeven analysis is shown below for the cardinal monetary value points with unit costs at \$ 200. 00: 30Breakeven AnalysisParameter Values:\$ 249. 00Unit Gross saless PriceFixed Costs: Unit of measurement Costss\$ 700. 000. 00\$ 200. 0014286Breakeven QuantityMeasure0100001400014286Cost\$ 700. 000. 00\$ 2. 700. 000. 00\$ 3. 500. 000. 00\$ 3. 557. 200. 00Gross\$ 0. 00\$ 2. 490. 000. 00\$ 3. 486. 000. 00\$ 3. 557. 214. 00Net income- \$ 700. 000. 00- \$ 210. 000. 00- \$ 14. 000. 00\$ 14. 00150002000025000300004000070000100000120000\$ 3. 700. 000. 00\$ 4. 700. 000. 00\$ 5. 700. 000. 00\$ 6. 700. 000. 00\$ 8. 700. 000. 00\$ 14. 700. 000. 00\$ 20. 700. 000. 00\$ 24. 700. 000. 00\$ 3. 735. 000. 00\$ 4. 980. 000. 00\$ 6. 225. 000. 00\$ 7. 470. 000. 00\$ 9. 960. 000. 00\$ 17. 430. 000. 00\$ 24. 900. 000. 00\$ 29. 880. 000. 00\$ 35. 000. 00\$ 280. 000. 00\$ 525. 000. 00\$ 770. 000. 00\$ 1. 260. 000. 00\$ 2. 730. 000. 00\$ 4. 200. 000. 00\$ 5. 180. 000. 00Breakeven AnalysisParameter Values:\$ 299. 00Unit Gross saless PriceFixed Costs: Unit of measurement Costss\$ 700. 000. 00\$ 200. 007071Breakeven QuantityMeasure0Cost\$ 700. 000. 00Gross\$ 0. 00Net income- \$ 700. 000. 00500070007071\$ 1. 700. 000. 00\$ 2. 100. 000. 00\$ 2. 114. 200. 00\$ 1. 495. 000. 00\$ 2. 093. 000. 00\$ 2. 114. 229. 00- \$ 205. 000. 00- \$ 7. 000. 00\$ 29. 0010000150002000025000300004000070000100000\$ 2. 700. 000. 00\$ 3. 700. 000. 00\$ 4. 700. 000. 00\$ 5. 700. 000. 00\$ 6. 700.

000. 00\$ 8. 700. 000. 00\$ 14. 700. 000. 00\$ 20. 700. 000. 00\$ 2. 990. 000.
 00\$ 4. 485. 000. 00\$ 5. 980. 000. 00\$ 7. 475. 000. 00\$ 8. 970. 000. 00\$ 11.
 960. 000. 00\$ 20. 930. 000. 00\$ 29. 900. 000. 00\$ 290. 000. 00\$ 785. 000.
 00\$ 1. 280. 000. 00\$ 1. 775. 000. 00\$ 2. 270. 000. 00\$ 3. 260. 000. 00\$ 6.
 230. 000. 00\$ 9. 200. 000. 0031The monetary value point of \$ 199 is below
 the \$ 220 (or hopefully \$ 200) production costs of the beer maker. If the
 B100 is sold at a monetary value of \$ 199. the loss on the beer maker would
 be expected to be made up through K-Cup or Keurig-Cup gross revenues. If
 Keurig relies on the sale of cups to do up for pricing the beer maker below
 cost. the B100 would go a loss leader. The K-Cup (or Keurig-Cup) monetary
 value of \$ 0. 55 will be used with the premise that the proprietor of the B100
 would devour. on norm. 2. 25 cups of java per twenty-four hours with their
 B100 system five yearss a hebdomad. The one-year java gross revenues are
 included in the breakeven analysis at the monetary value of \$ 199 ;
 otherwise. there would be no degree of beer maker gross revenues that
 would ensue in a net income. Obviously. if the one-year jutting java gross
 revenues are included in the above breakeven analyses at the unit sale
 monetary values of \$ 249 and \$ 299. the breakeven measure would be lower
 for Keurig than they appear to be above. but those figures are non truly of
 import since both monetary value points are higher than the unit costs of
 each beer maker for the analyses. Breakeven AnalysisParameter Values:
 Unit Gross saless PriceAnnual ProjectedCoffee Gross saless\$ 199. 00\$ 175.
 502Fixed Costss: Unit of measurement Costss\$ 700. 000. 00\$ 220.
 00Breakeven QuantityMeasure45310Gross\$ 0. 00Net income- \$ 700. 000.
 0040004531\$ 1. 580. 000. 00\$ 1. 696. 820. 00\$ 1. 498. 000. 00\$ 1. 696.

859.50- \$ 82.000.00\$ 39.505000100002000040000700001000002Cost\$
 700.000.00\$ 1.800.000.00\$ 2.900.000.00\$ 5.100.000.00\$ 9.500.
 000.00\$ 16.100.000.00\$ 22.700.000.00\$ 1.872.500.00\$ 3.745.000.
 00\$ 7.490.000.00\$ 14.980.000.00\$ 26.215.000.00\$ 37.450.000.00\$
 72.500.00\$ 845.000.00\$ 2.390.000.00\$ 5.480.000.00\$ 10.115.000.
 00\$ 14.750.000.00Annual Projected Coffee Gross saless: (\$ 0.55- \$ 0.25)

*2.25 cups/weekday*5 days*52 hebdomads = \$ 175.5032Breakeven

AnalysisParameter Values: Unit Gross saless PriceAnnual ProjectedCoffee
 Gross salessFixed Costss: Unit of measurement Costss\$ 199.00\$ 175.501\$
 700.000.00\$ 200.00Breakeven QuantityMeasure4012040004012Cost\$
 700.000.00\$ 1.500.000.00\$ 1.502.400.00Gross\$ 0.00\$ 1.498.000.
 00\$ 1.502.494.00Net income- \$ 700.000.00- \$ 2.000.00\$ 94.

00500010000200004000070000100000\$ 1.700.000.00\$ 2.700.000.00\$
 4.700.000.00\$ 8.700.000.00\$ 14.700.000.00\$ 20.700.000.00\$ 1.
 872.500.00\$ 3.745.000.00\$ 7.490.000.00\$ 14.980.000.00\$ 26.215.
 000.00\$ 37.450.000.00\$ 172.500.00\$ 1.045.000.00\$ 2.790.000.00\$
 6.280.000.00\$ 11.515.000.00\$ 16.750.000.00The benefits of an

investing in the B100 brewing system are great for the gourmet java lovers
 who flock to Starbucks. Dunkin' Donuts. Seattle's Best. and Caribou Coffee to
 fulfill their cravings before work every forenoon. The mean gourmet java
 drinker in business district Chicago, IL. who drinks 2.25 cups of java per
 weekday. would pass an estimated \$ 936 on java per twelvemonth (IL
 Starbucks) . 3 In the Chicago market. an investing in the Keurig system
 would let the consumer to pay for the B100 beer maker and X figure of old
 ages of K-Cups (or Keurig Cups) at a monetary value of \$ 0.55/cup. For

illustration. if the beer maker is sold at \$ 249. the consumer could purchase the B100 and 3. 91 old ages of tantamount java in K-Cups and spend the same sum of money as one year's worth of java ingestion at an mean downtown Chicago. IL. Starbucks. 3The mean monetary value of an 8 oz. black Starbucks' java in downtown Chicago. IL is \$ 1. 47 plus revenue enhancement (revenue enhancement rate of 9 %) . Person who drinks 2. 25 cups/weekday would pass \$ 936 (\$ 14. 7*1. 09*2. 25 cups/weekday*5 days*52 hebdomads) . 33Brewer Price\$ 199\$ 249\$ 299Old ages of K-Cups4. 203. 913. 63In the Indianapolis market. the same comparing can be made. The mean gourmet java drinker in Indianapolis. IN. who drinks 2. 25 cups of java per weekday. would pass an estimated \$ 625. 95 on java per twelvemonth (IN Starbucks) . 4 Brewer Price\$ 199\$ 249\$ 299Old ages of K-Cups2. 432. 151. 86Therefore. while the Keurig brewing system may look to be a costly investing. it is clear that the consumer would be salvaging money by doing his/her ain cup-by-cup epicure java alternatively of going to a gourmet java supplier such as Starbucks. 5A lower monetary value of \$ 199 for the beer maker does look to be appealing to consumers. A monetary value below \$ 200 does non trip a luxury purchase outlook in the consumer. Besides. since Keurig is in the introductory phase of the B100. frequently net incomes are lower since more money is spent by the company on publicity. merchandise. and topographic point development (McCarthy 271) . However. we feel the monetary value of \$ 199 is non ideal because Keurig would be trusting on the gross revenues of K-Cups (or Keurig-Cups) to cover the disbursals for fabricating the B100. This is a really hazardous determination. If the sale of K-Cups (or KeurigCups) does non populate up

to the expected degrees. Keurig's net incomes will diminish. Besides, if the demand for the at-home system is lower than expected and Keurig must take down the monetary value of the beer maker to travel the merchandise, a lessening in the merchandising monetary value would set the beer maker at an even larger loss for the company and stockholders. 4The mean monetary value of an 8 oz. black Starbucks' java in downtown Indianapolis, IN is \$ 1. 00 plus revenue enhancement (revenue enhancement rate of 7 %) . Person who drinks 2. 25 cups/weekday would pass \$ 625. 95 (\$ 1. 00*1. 07*2. 25 cups/weekday*5 days*52 hebdomads) . 5Savings do non include travel clip and gasolene. 34From our breakeven analyses above, it seems that the optimum monetary value for the beer maker would be \$ 249 based on our focussed monetary value points. It appears to be Keurig's best option to monetary value higher than their fabrication costs so, after run intoing their breakeven measures, all extra gross revenues contribute to the net incomes of the company. While Keurig's direction is concerned that they may non hold adequate clip to take down the monetary value of the beer maker once it is out in the market, it seems that this is a hazard that is deserving taking (Anderson 11) . By pricing the beer maker at \$ 249, all net incomes can be put toward research and development attempts to take down the production costs of the B100 and to develop subsequent one-cup beer makers at a lower monetary value to appeal to other markets. The net incomes of the B100 will give Keurig the chance to pull in a broader consumer base and hopefully will enable Keurig to develop new mark markets with lower-priced one-cup beer makers. On the other manus, pricing above \$ 200 forces consumers to believe harder about doing a B100 beer

maker purchase. It is of import for Keurig to utilize monetary value as an index of high quality without setting themselves out of the market wholly. We feel that Keurig's at-home beer maker will be a luxury point for most consumers willing and able to put. so a \$ 200 luxury indicator can be considered irrelevant to our mark consumers. Currently. with the production costs of the B100 at \$ 200- \$ 220. it does non look within the capablenesss of Keurig to monetary value the beer maker at \$ 149. A monetary value of \$ 149 would coerce the company to trust excessively to a great extent on K-Cup (or Keurig-Cup) gross revenues. Based on the breakeven analysis below with one-year jutting java gross revenues once more at \$ 175. 50 per consumer. Keurig would hold to sell 6. 699 beer makers to people that will imbibe at least 2. 25 cups per weekday to interrupt even on their investing in the B100. This is even riskier than utilizing the \$ 199 monetary value. It seems that constructing up equity to set toward R & A ; D would be35a much better option for Keurig to enable them to subsequently run into the demands of the consumers in the market of \$ 149 one-cup beer makers.

Breakeven AnalysisParameter Valuess: Unit Gross saless PriceAnnual

ProjectedCoffee Gross salessFixed Costss: Unit of measurement Costss\$ 149.

00\$ 175. 506\$ 700. 000. 00\$ 220. 00Breakeven

QuantityMeasureCost05000600066991000015000200002540030000400007

00001000006699Gross\$ 700. 000. 00\$ 1. 800. 000. 00\$ 2. 020. 000. 00\$ 2.

173. 780. 00\$ 2. 900. 000. 00\$ 4. 000. 000. 00\$ 5. 100. 000. 00\$ 6. 288.

000. 00\$ 7. 300. 000. 00\$ 9. 500. 000. 00\$ 16. 100. 000. 00\$ 22. 700. 000.

00\$ 0. 00\$ 1. 622. 500. 00\$ 1. 947. 000. 00\$ 2. 173. 825. 50\$ 3. 245. 000.

00\$ 4. 867. 500. 00\$ 6. 490. 000. 00\$ 8. 242. 300. 00\$ 9. 735. 000. 00\$ 12.

980. 000. 00\$ 22. 715. 000. 00\$ 32. 450. 000. 00Net income- \$ 700. 000. 00-
 \$ 177. 500. 00- \$ 73. 000. 00\$ 45. 50\$ 345. 000. 00\$ 867. 500. 00\$ 1. 390.
 000. 00\$ 1. 954. 300. 00\$ 2. 435. 000. 00\$ 3. 480. 000. 00\$ 6. 615. 000. 00\$

9. 750. 000. 00VII. Problematic Issues and OptionsPromotionIn order to sell
 units. we need to demo the benefits of the B100 brewer first-hand. As
 addressed earlier. we plan to carry through this through merchandise
 presentations in alternate locales such as professional conventions.

airdromes. flush shopping promenades. and high-end contraption shows. We
 besides plan on offering referral plans and price reductions which will assist
 raise consciousness and merchandise trueness. In 2005. the KAD referral
 plan no longer existed. but we feel that in 2003 it would hold been a really
 effectual manner to force to the B100 beer maker to the “ Keurig-awares”

6Annual Projected Coffee Gross saless: (\$ 0. 55- \$ 0. 25) *2. 25

cups/weekday*5 days*52 hebdomads = \$ 175. 5036in the OCS market

(Spangler) . Now that the merchandise has been out for more than two old
 ages and alternate. lower-priced beer makers are offered by Keurig. the
 benefits of such a plan are non every bit high. BoxingThe chief job with
 packaging prevarications in make up one’s minding between the one-cup
 and twocup attacks. We feel that the one-cup attack is Keurig’s best option
 because it appeases GMCR. decreases the opportunity for client
 dissatisfaction. and simplifies the merchandise for the consumer.

Topographic pointKeurig needs to utilize an sole selling attack in the OCS
 market. intending that gross revenues are merely through KADs’ specialising
 in peculiar geographic countries (McCarthy 311) . We feel this is of import
 because the KADs’ districts are largely independent of one other. leting

closer relationships between the KAD representatives and the office directors. However, in the at-home market, we are not merely marketing entirely, since the cups are available through the KADs and on Keurig's and roasters' Web sites. We feel it is of import to sell through Web sites, every bit good, because the lone at-home consumers the KADs sell to are office workers in their territories. There will be other consumers who do not work in an office that maintains a KAD relationship, and they will necessitate a channel through which to buy the beer maker and cups. It is of import to keep both direct and indirect channels in the at-home market. One ground is that the KADs have established relationships with office directors and will ab initio force the beer maker gross revenues to office workers. Harmonizing the Bob Spangler, a KAD through Purefact, the OCS market is a really valuable beginning of at-home gross revenues because the clients have already experienced the benefits of a Keurig java system. 37After the KADs sell to the workers, those new Keurig purchasers will go on the publicity. Their positive experiences with the B100 will motivate the new proprietors to distribute the word of the merchandise to friends, household, and neighbours in order to acquire \$ 25 off their purchase of K-Cups through our proposed referral plan. Monetary value Pricing the beer maker is a chief concern of Keurig. Based on the gross revenues projections, we could breakeven or net income at the monetary values of \$ 199, \$ 249, and \$ 299. We chose to monetary value the beer maker at \$ 249, because it is much easier to monetary value high and lower subsequently. Besides, at the \$ 249 monetary value, Keurig can cover their fabrication costs without holding to depend on KCup gross revenues. Then, the K-Cup net incomes can be put

towards research and development of less expensive beer makers that can subsequently be sold to the mass market through retail merchants. One of Keurig's chief aims for the old ages to come should be to non merely lower beer maker costs but to besides make partnerships with high-end retail merchants to sell the Keurig at-home beer makers. We feel retail merchants like Williams-Sonoma, Crate & A ; Barrel, and other high-end place shops are feasible campaigners for such partnerships. The pricing of the K-Cups is besides of concern to Keurig. Based on the market research, we feel that our mark market would be willing to pay \$ 0. 55 per K-Cup. This monetary value will still give the KADs pricing control in the OCS market, and the monetary value will let Keurig and the roasters to do a higher net income per K-Cup.

VIII. DecisionWith Keurig's success in the office java market, a " logical concern extension" does, so, look to be the at-home java market (Anderson 6)