Four p’s of marketing and folgers coffee assignment

Art & Culture

Introduction This Essay will deal with the Four P’s of marketing as it relates to Folgers Coffee. It will be demonstrated how the marketing function is visible in these four areas. It will also be shown how the coffee giant had lost its lead in market share and then recovered it in the mid 1990’s. We will explore how now that Folgers is being operated by Smuckers, the coffee giant has used some clever marketing schemes. The Four P’s 1. Product 2. Price 3. Place (distribution) 4. Promotion Product

In looking at our product, Folgers Coffee, a sure way to see where a product is going sometimes is to look at where it has been. In 1992, Kraft’s brand of coffee, Maxwell House, had gained the lead in market share and appeared to be poised to drive a nail in the coffin of Folgers. The obituary for Folgers was premature as Folgers began a marketing campaign that consumers still remember. You can ask almost anyone who makes the “ Mountain Grown” coffee and almost all will answer “ Folgers”. It took them a year to regain the lead with sales of almost $120 million compared to Maxwell House’s sales of $102 million. Deveny, 1993) According to Business Week, “ Folgers primarily engages in sourcing, blending, and roasting green coffee beans; and packaging, marketing, and distributing branded coffee products. Folgers three divisions, Commercial, Retail and Millstone are showing that the company is diversifying its products. The offerings of the retail division are Folgers Classic Roast and Folgers Coffee House Series. Folgers is also offering single serve coffee products, such as Folgers Pods, Folgers Cappuccino, Folgers Singles, and Folgers Instant.

Also included are ground coffee and gourmet roast products, such as Dunkin’ Donuts licensed retail packaged coffee products and Folgers Gourmet

Selections. The Commercial division provides packaged roast and ground coffee products to offices, foodservice, quick service and casual dining restaurants and convenience stores. The Millstone division offers Millstone gourmet roast and ground and whole bean coffee products. It sells products in packaged and bulk whole bean form throughout its direct delivery system to stores.

This division also produces and sells private label brands in packaged and bulk whole bean form by various retailers, such as Brothers and Veneto’s. The Folgers Coffee Company is a subsidiary of The Procter and Gamble Company. As of November 6, 2008, The Folgers Coffee Company operates as a subsidiary of The J. M. Smuckers Company. ” (Business Week, 2008) One industry analyst said that coffee is perceived as a commodity product with little differentiation. Premium prices could be obtained only by turning it into a convenience prod?? uct, which seems to have been P’s intention. Lawrence, 2001) But consumer tastes are changing fast, and Folgers is under threat from a whole rash of specialist blends and hybrid coffee spin-offs. Until now the brand has been one of consumer giant Procter & Gamble’s biggest products, worth more just under $2 billion a year. However it has also become an increasingly uncomfortable fit with the rest of the P portfolio, and in 2008 the group announced plans to divest the business. It was acquired by food company JM Smuckers, which has previously purchased other brands from P including Jif peanut butter.

Coffee is a competitive market where the product is sold cheaply, a mere fraction of the comparable per-serving cost for soft drinks. Higher margins are possible with specialty coffees, but such major firms as P entered this market late and almost reluctantly. Folgers’ Gourmet Supreme coffee, an effort to appeal to gourmet buyers with a premium product, has met with little success. (The only consolation here was that sales of Maxwell House’s comparable product, Rich French Roast, have also fallen. Deveny, 1993) While Americans still gulp down coffee??? consumption is up 9% from 2001 to 2006??? supermarket brands like Kraft Foods’ Maxwell House and Procter & Gamble’s Folgers face cooling demand. Coffee growth is coming from coffee on the go. Sales from restaurants??? including Starbucks, Dunkin’ Donuts, and McDonald’s, which carry premium brews??? grew at a compound annual rate of 15. 2% from 2001 to 2006, as supermarket sales rose only marginally. Activist investor Nelson Peltz is pressuring Kraft to divest slow-growing Maxwell House.

But Kraft vows to stick with the $1 billion-a-year brand. Another worry: Only 37% of 18- to 24-year-olds drink coffee, reports the National Coffee Assn. , vs. 60% of those 40 to 59 and 74% of folks over 60. (Crown, 2007) Price Folgers now finds itself in an era where price-cutting for consumer goods in general is rampant. Consumers are buying cheaper brands and fewer units of many goods. Consumers have made the most changes so far in high-expenditure, less structural consumables: leisure (including dining out), shopping, and driving. Leinwand, Moeller, & Shriram, 2008) While many consum?? ers will still pay for premium products, super?? markets have had to slash prices on many ordinary items. Part of the reason for this is the fierce competition they have been receiv?? ing from such outlets as warehouse clubs. Folgers is a very well-known brand, but not even the stron?? gest brands are safe from the necessity of price-cutting, to which they were formerly immune. In bygone days, owning a strong brand was a sure road to protected high margins. Low-cost generic products have improved in quality and their sales have skyrocketed, making such moves unavoidable.

Accord?? ingly, Folgers’ list price dropped 10-15% between 2001 and 2003. Place Here we have one of the major reasons for Folgers’ plight. Like other name brands, it did well in supermarkets, where the only battle was for shelf space. But as we have seen, sales figures for coffees in such outlets have been falling. (Progressive Grocer put whole bean and ground coffees into one category, so it appeared that both have suffered from falling sales, but this is not true of bean coffee sales, which have been doing well even in supermarkets. (Everage, 2003) Supermarkets have been losing a great deal of business to warehouse clubs and other outlets of this type, which specialize in no-frills and commodity items like coffee beans. 15% of family purchases of coffee and tea prod?? ucts are now made in membership clubs. This shift towards the new type of mass merchandisers has also lost the supermarkets some ground coffee sales. Small grocery stores and convenience stores comprise most of the rest of Folgers’ channel, although institutional sales are also a part of it.

It is the supermarket channel that dictates, for example, that all sizes of regular Folgers bear one color label (red), while “ decaf” sizes have green labels. Supermarket shelves contain so many variet?? ies of coffee that consumers must be able to pick out their favorite brand quickly and from a distance, and decaf must always be easily distinguishable from “ regular. ” What you end up with on the coffee aisle is a sea of red and a sea of green. (Everage, 2003) Promotion “ Coffee,” writes Saporito, “ is one of the most heavily promoted products in the American supermarket”. Saporito, 1990) Although name brands in general rely on strong advertis?? ing, in the coffee market this is even more true than usual. Market share can be gained only by price-cutting (in an already low-margin business) or by advertising, and the industry has, until recently, rallied around the latter approach. Folgers came up with one of the most unique marketing strategies seen in 2006. In New York City, Saatchi and Saatchi NY came up with placing photographs of a tempting cup of coffee that were taken from overhead and then printed onto vinyl.

These were placed on top of steaming manhole covers with holes cut into the vinyl which would allow the steam to rise. The effect is one of giant, hot, cups of coffee. (Maynard, 2006) In the face of uncertainty, focus is more important than ever. Of course, it is not easy to be calm and steady amidst such economic turmoil. Your natural instinct is to get out there and tinker with your brand to keep it afloat. Economic markets at times will rise and fall like the ocean. Strong brands will survive no matter what the tide.

The key to long-term success is riding the waves up and down using your brand as a steady rudder. You should not attempt to sail against the wind. Changing your strategy depending on the economy is a trap that many companies fall into. When times are good, companies often launch expensive versions of their brands like Folgers Gourmet. When times are bad, companies often promote their brand with discounts, coupons, and with sales. Just prior to the Smuckers deal, Folgers tried to pull a fast one on the public by downsizing their containers and not making a change to their price structure.

A 13 ounce can all of a sudden was now only 11. 3 ounces. The 39 ounce can was now only 33. 9 ounces. To add insult to injury, Folgers decided to give the public an excuse of, “ We’re not reducing the amount of coffee. We’ve enhanced the roasting process,” said Becker. “ Think of it like popcorn. There’s air [in the can.] It’s puffier . . . We pre-roasted it with just the right amount of heat. ” Becker added that “ improving the technology of roasting” has been in the works for 10 years, and that the 11. 3-oz. still yields 90 cups coffee, while the 33. 9-oz. ields 270 cups, as before the packaging was reduced. (Wong, 2008) Conclusions We have seen that Folgers while the leading brand, is plagued with low margins. Part of the reason for this is that it is forced to maintain its market share with costly advertis?? ing. In addition, its chief channel, the supermarkets, have been under attack from new, competing channels. These offer consumers competitive products that are not superior in quality, but much lower in price. Brand loyalty is eroding everywhere, and not only in the coffee market. Finally, consumer habits are chang?? ing.

More of them are grinding their own beans, which plays into the hands of the warehouse clubs, who specialize in bean coffee in large bags. Others are drinking specialty or luxury coffees. This is an area where consumers do not perceive such standard, unexciting brands as Folgers to be genuine entries.

The deal with Cincinnati-based P, known for such brands as Pampers, Gillette Fusion razors and Head & Shoulders shampoo, is expected to close in the fourth quarter. “ Coffee is the perfect complement to breakfast or dessert ??? two areas we know a lot about,” said Richard Smucker, president and co-chief executive of Smuckers.

Analyst reaction was positive. Stephens Inc. said it viewed the deal positively in view of the Smuckers practice of buying up strong brands “ and revitalizing them with management attention and advertising support. ” Susan Fournier with Boston University’s management school called the deal “ a match made in brand heaven” because there were pluses for P and Smuckers. In Cincinnati, where Daniel C. Kiley manages money for more than 500 P retirees, most of who still own company stock, said the deal came at a good ime, with the economic downturn prompting some consumers to make coffee at home instead of going out for Starbucks lattes. (SHEERAN, 2008) The 4 P’s have shown that Folgers is no experiencing trouble despite its lead, and Folgers should use the 4 P’s to continue moving forward. It must cut costs so that lower prices will not hurt margins as much. It must introduce new products in the more lucrative areas such as gourmet blends and bean coffees, and stick with them until they succeed. It must get more advertising impact per dollar, so that such expens?? es can be reduced.

It must find a way to get more shelf space in the warehouse clubs, even with a product priced higher than the usual items found there. It must not try to pull the wool over the public’s eyes. In short, Folgers must not settle for a mediocre application of the 4 P’s Bibliography Business Week. (2008).

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