

Keurig

Family



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a) How attractive is the Keurig system in the office coffee market? Answer:

The Keurig's office coffee systems most popularly called as OCS, was at first introduced into the office setup after some doubts by the company. The company had doubts whether the office staff would like the coffee made from the coffee machine and its flavor, whether the staff would be in a position to operate the coffee machine and on to top all this, whether the office managers will agree to pay a premium for such coffee prepared by the coffee machine. But the most interesting that the Keurig company's top management found was that, office staff and their managers were ready to accept and pay for the office coffee system marketed by the company. Indeed this was a very good response that they got, based from the data collected by placing the office coffee system in companies like Toshiba and many others. The data was collected from these test locations and from the feedback that was received from the office, as well as from the different facility managers in these locations. As per the feedback received by the Keurig company, these managers had mentioned that the OCS was considered to be a wonderful type of benefit, which they were able to provide the company staff and this created a better atmosphere in the entire workplace. Indeed the office managers were really positive regarding the performance and the benefits that the coffee machine placed by the Keurig Company since now they feel that, the staffs enjoy the coffee breaks because of the in-house availability of the coffee. In addition to this the company is also able to save valuable office time with the OCS machines, since the staff would otherwise be wasting precious time by taking coffee breaks outside the organization, at the nearest coffee houses. The flavor offered by the Keurig's coffee machines was also quite acceptable to the

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staff, since there was a total of eight varieties of flavor. Apart from this the marketing team at Keurig maintained that, the use of the OCS coffee machines would lead to lowering the wastage levels of the coffee, that would have otherwise been washed off the drain due to the flavor problems , incorrect type of brewing, or because the coffee becoming stale. In addition to this the OCS machines could be easily cleaned and maintained quite efficiently. The company also marketed what was popularly called as the K cups. Thus as per the company management it was decided that, the company would market and sell both its brewers as well as the K cups through its regional distributors to the offices. Thus the Keurig company was very successful in this market segment, since there was approximately a total 1, 700 of the OCS distributors and each one of them were able to achieve a whopping sales of \$1. 4 million, which was a tremendous amount with respect to the coffee market in the US. Out of the total OCS distributors of the Keurig Company, an approximate of about one third of them very well enjoyed sales of over \$2. 5 million. Due to this success the company also learnt to market several other ideas for marketing its brewers as well as the K cups. According to this the company saw the huge possibility of marketing its brewers to its distributors, at a price of around \$1000. The top management also felt the need for aggressive marketing that was to be launched by the distributors, taking the Fuller Brush model of door to door marketing. In the case of the OCS it was to be an office to office marketing strategy by demonstrating the coffee machines in offices and then to place the machine for at least a week to prove its efficiency and usefulness to the office managers and the staff. Thus it can be concluded that due to the strategies taken by the marketing team in this office market segment, the <https://assignbuster.com/keurig/>

Keurig Company was very successful in marketing its brewers along with the K cups and the sales statistics and the earnings of the company proved this.

b) What advise do you have for Nick Lazaris concerning his dealings with MTS (k-cup filling machine manufacturer?) What price goal should he set for the negotiation and what should his strategy be? Answer: MTS had signed a contract deal with the Keurig Company and according to this contract it was agreed that, MTS would be developing the K cups that were intended for the packaging line for the Keurig Company. But once the first packaging line was manufactured by the MTS, its CEO Mike Moore informed Lazaris of Keurig that, an additional \$180, 000 was needed to be paid by Keurig to MTS, in addition to the already agreed sum of \$700, 000. The finished packaging line of K cups would only be delivered after this sum is paid by Keurig. As per MTS the additional sum was demanded for the reason that, the Keurig Company had made many kinds of design modifications during the process of manufacture of the packaging line. This demand as per Lazaris was totally not ethical as per the MTS- Keurig contract and hence he felt that, they could settle it only by means of arbitration. But MTS was not ready for this, since they had the full control over the machine. This put the Keurig management in a fix and also the relations between the MTS and Keurig became stale. But Lazaris knew very well that, they could not do anything else since any delay in the delivery of the fist packaging line by MTS, would cause problems at the Green Mountain site. But once Lazaris discussed this issue with the top management then, Kernan along with Lazaris were able to reach an agreement with MTS, regarding the additional payment. As per this deal the MTS should deliver the first unit at Green Mountain and within one month a decision would be taken, regarding the additional payment as demanded by <https://assignbuster.com/keurig/>

MTS. This was a pure form of exploitation and extortion by the MTS Company but the Keurig Company could not do anything regarding this, since it totally depended on MTS for the successful launch of the product. The advice that can be given to Nick Lazaris is that, being the CEO of the Keurig Company he should have taken a firm decision at the first instance, when the MTS CEO demanded for the extra payment for the packaging line up. Since arbitration was already being provided in the contract of the MTS and Keurig deal, he could have remained adamant in going for arbitration. The MTS CEO knew very well that since the machine was totally under his company's control, he could demand any amount, which would be totally met with by Keurig. But if Lazaris had taken a much tougher stance in going for arbitration then the MTS CEO could have taken back the demands, since he knew very well that his company would face a heavy loss in the event of arbitration. The first batch of the packaging line had already been finished and was yet to be delivered. This statement of MTS CEO clearly shows that, in the event if the Keurig Company decides to call off the deal, then the MTS Company would surely face a financial loss since Keurig was yet to make the payment of \$700, 000. This would have affected his position in continuing as the CEO of MTS. Another step that Lazaris could have taken was to make clear to the MTS CEO regarding the particulars in the existing contract, which they had signed and could have threatened of legal procedures for breaking the contract. This would not be liked by any company, since it would become a black mark on them in the business world. But Nick Lazaris thought more about his own future in the Keurig Company and gave top priority to his interests when compared to that of Keurig's. Hence Nick Lazaris should have opted for a very straightforward approach, without agreeing for any price

goal for negotiations with MTS. Since the MTS Company and its CEO Mike More were purely sticking to unethical methods of money extortion, Nick Lazaris and the top management of Keurig should have dealt with it strongly without bowing to such threats. c) What advice do you have concerning the selection of the vendor for the brewing machines? Answer: Keurig's main brewer supplier was the Vandelay Company, which was originally a designer and manufacturer of the precision instruments for oceanography. The main experience of the Vandelay Company was in designing the instruments for the defense purposes and when there was a cutback in the defense industries expenditure, the company had to ultimately look out for alternative sources of projects to keep it operational. This was the time when it had approached the Keurig Company and put forth the project of manufacturing the brewers, intended for the coffee making industry. But since the company did not have any previous experience in this field, the initial order of thousand brewers by Keurig was met with and supplied to the company, without testing the quality of the brewers. This had resulted in the faulty brewer machines, which had parts as well as the screws falling apart. This proved to be quite costly for the Keurig Company, since they had to service the brewer ultimately by the Vendor which cost an addition of around \$50 to \$100 for each service. This not only brought about financial losses to the company in terms of the service charges but also projected a bad image about the company in front of its customers. Since the company had very tight schedules to meet with because of the reason that, the packaging line and the brewing units were linked to each other, such faulty brewers could result in jeopardizing the roll out schedules decided by the top management. The next problem appeared in the form of the vendor company Vandelay

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trying to extract extra cash from the Keurig, overlooking its initial lower bid. Thus for the next 1000 brewer units that Keurig needed from its vendor, Vandelay placed a bid which was much higher than the initial bid. When the Keurig company management decided to do away with Vandelay, they got the bid from another company through reference and this manufacturer was the Lakeland Instruments, which was started by former employees of IBM. The company was mainly involved in the manufacturing of the technological kinds of products like the cellular phones, disk drives and also many other types of medical instruments. The brewer manufacturing was a new platform for the Lakeland Instruments but still the company was ready to supply more than ten thousand units of brewers on an annual basis to the Keurig Company, which was far short of their requirement. Their quote was lesser than the Vandelay Company and was fixed at around \$680. But the Keurig company management was not ready to strike a deal with this company due to the lower brewer manufacturing and supply capability of Lakeland Instruments. Another alternate company was the Pilla Manufacturing Company, which was desperately trying to get the brewer contract only to keep itself in the industry. They were also ready to lower the bids below \$700. But the top management at Keurig was totally opposed to make the Pilla Manufacturing its vendor because the company was highly unstable due to deep financial instability. Thus it can be seen that the Keurig's top management, were not good thinkers or good decision makers. This is because of the reason that, the company is relying upon vendors who had no previous experience in the manufacturing and supplying of the coffee vending machines and brewers. All the vendors had been manufacturing and supplying instruments and machines, totally different from the brewers that

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were needed for Keurig. This proves very well that, the company does not possess logical thinking managers. The top management very well knows that, the brewer manufacture and supply is a very key factor for the ultimate success of the business for Keurig because it is very closely linked to the packaging line. Thus they could have done some initial research in finding out the best brewer manufacturers within the country, by placing some advertisements in the local newspapers. This would have surely paid off well, since they would have got several manufacturers and suppliers who were specialized in the brewer industry. Thus the Keurig company top management faulted on this ground which resulted in all the stated problems. Hence the advise to the top management is to become more industry specific and to concentrate on the wants and to very well shortlist the best manufacturers and suppliers of best quality coffee brewers within the US. d) What actions should Keurig take to penetrate the office coffee service market? How fast should they grow? Answer: Indeed if the Keurig Company has to penetrate the office coffee service market, they have to put into action the strategy as per what the company Vice President for sales and the marketing, Chris Stevens had put forward. According to Chris he felt that positioning the OCS brand in the various offices across the US was very much important. Stevens felt that the OCS coffee machine could not be marketed like any other product, just by placing some advertisements. Indeed it could be successfully sold to the offices only by demonstrating the coffee machine within the office, to the office manager and also to the staff. In short Stevens believed in adopting the Fuller brush marketing model of door to door sales. In the case of the OCS the distributors of the Keurig coffee machine, were to approach the various offices and demonstrate the

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machine and its uses and ultimately place the machines within the office, for a period of at least one week. This would give sufficient time for the office managers and the staff, to know and put to use the OCS coffee machine. By this time they would fully understand the use of the OCS machine and also would start liking the coffee brewed from the machine. The office managers would also realize, the impact that the coffee machine has on the employees and staff of the company, which would force them to order for the installation of the OCS coffee machines within their offices. The Keurig coffee machine already had become popular among the US offices and the sales of the OCS machines by the distributors really proved this. The Keurig company had to market the brewers and the K cups aggressively and quickly to this market segment, since offices showed a positive bias towards Keurig's OCS coffee machines. By doing so the company could very well put down any competitors and capture a large office market segment. e) What should they do about the home coffee market? How soon should they plan to enter?

Answer: The Vice President Chris Stevens of the Keurig rightly believed that, the company's entry into the Home coffee market would be placed in a secondary position, when compared to the primary position going to the office coffee market and the food service establishments. This was based on the marketing as well as the sales data and the inferences that had been drawn from the same. As per Stevens the sales of the brewers and the K cups to the office and the food service establishments indicated that, it was easier to penetrate these markets and also highly profitable since such market segments were ready to pay high prices, for acquiring the brewers and the K cups marketed by the Keurig company. As per this the company brewer that was marketed can be priced above \$1000 and still there would

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be buyers for these products. But this was not to be the case with the household segment, since the consumers would be not be ready to pay such high prices towards acquiring the Keurig's products. This was also because of the reason that, there were also many cheaper brewer and coffee machines that were already available in the consumer market. As a result the company felt that there would be stiff competition from such products, that could make their market penetration much to impossible and difficult. Another reason was due to the hindrance that was presented in the form of limited form of resources that was available for the company. Due to the limitation of resources the company management felt that, any plan to develop a better quality commercial type of coffee machine by its development staff would eat away its resources and cost the company very dearly. But the company management had seen a very high potential in this market segment and had decided to enter this segment by the year 2001, through the launch of its household coffee maker version. The Keurig management felt that once the office and the food service segments are launched and well penetrated, then the company would be able to get much better acceptance in the consumer home segment. Hence it can be rightly said that, the home coffee market is a really challenging segment for the Keurig Company to make quick inroads and the strategy adopted by the company management can be considered as the best one. But if the company is panning to get hold of a very large market segment present in the US home market, then they have to prove themselves to be much smarter to their competitors, by adopting a cut throat strategy of marketing cheaper varieties of the coffee machines and brewers, like the other coffee machine companies. Thus they have to develop their existing engineering staff and also pump in more

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resources for funding such projects. Hence this could be done at a later stage, once the company starts getting more profits from the other two market segments and use these resources, to fund the consumer coffee machine development and penetration.