

# Marketing essays - gloria jean coffee



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## **Gloria Jean Coffee**

The following report analyses the coffee industry of Gloria Jeans Coffee in regard to its competitive position in the market. Gloria Jeans is a premium coffee maker that focuses on franchising their business to locals.

### Gloria Jean's Coffee History

In 1979, Gloria Jean Kvetko founded Gloria Jean's Coffees with her first outlet opened in Chicago, USA, selling coffee and gifts.

In 1996, Jireh International Pty Ltd, founded by Nabi Saleh and Peter Irvine, purchased the rights to franchise Gloria Jean's Coffees in Australia. Together, they opened their first Gloria Jean's Coffee in Miranda, Sydney, and then in Eastgardens, Sydney, two weeks later.

Gloria Jean's Coffees is known for its signature range of hot and cold coffee drinks including traditional espresso and ice blends; coffee beans, specialty teas, pastries and coffee accessories. (Wikipedia - The Free Encyclopedia 2008)

Gloria Jean's Coffee then moved to franchising in 1998, and opened 185 stores within 6 years where all are locally owned and operated by more than 100 franchisees. By 2003, Gloria Jean's Coffee has established stores in every state of Australia.

Jireh International Pty Ltd in 2005 purchased the rights to the Gloria Jean's Coffees brand for all international countries except USA and Puerto Rico, to further expand the brand name. They won numerous awards such as

Australian Franchisor of the Year (2005), Franchise Export Award of the Year (2006), Food Franchisor of the Year 2007 and the Western Sydney Exporter Award (2007). (Wikipedia - The Free Encyclopedia 2008)

Recently, Gloria Jean's Coffee Australia is being accused by gay societies by supporting Mercy Ministry, an organization that supports anti-gay where 10 cents from every Gloria Jean's cappuccino was donated to the charity Mercy Ministries. This causes concern among gay societies where they feel threatened by the act. (Crikey - Borders passes the hat for anti-gay, pro-life charity, 2007)

Taking all this into account the main strategic issues of this report are declining trend in the coffee industry.

#### Issues Faced By Gloria Jeans Coffee

##### Niche/Small Target Market

Gloria Jean's Coffee is currently targeting small market segment, young adults segment, which comprises people age 18 to 25 years old, compared to Starbucks, 15 to 64 years old. Besides that, Gloria Jean's mainly focuses on female customers, where half of the sales came from that particular gender.

##### Customers Are More Demanding

Nowadays, customers are more knowledgeable towards coffee. Besides, there is no switching cost to other competitors. They know what different types of coffee taste like and what kind of beans came from where. Thus

they only drink those that they prefer and they like. Customers are price sensitive, where a slight change in price might lead to change in preferred brand due to the low switching cost. This means that if customers do not get what they want from a brand, they will have no obligations to switch to the other brand, or they might as well buy coffee beans from supermarkets and brew themselves, which is one of the reason why sales is declining.

### Highly Competitive Industry

There are a lot of brands that selling the same product, which is coffee. Most of it is already well established. Thus it is a highly competitive industry where all are fighting for a share in the industry. The reason for many companies being in the same industry is because of a profitable market and low entry barrier. Growth in specialist coffee shops such as Hudson's Coffee and Starbucks Coffee took up a huge portion of the share in the market.

### Obesity

It is reported that 47% of women and 63% of men are overweight in Australia ( *Nutrition Australia, 2000*). Obesity is a hot issue in Australia now where even World Health Organization is trying to pressure food and beverage manufacturers to produce healthier food. Because of that, people became more health conscious and looks for lesser consumption on dairy products and sugar.

### Social and Environmental Issues

The recent stir of the partnership with a charity organization, Mercy Ministry has caused sales to decline to Gloria Jeans. This is because the lesbians and  
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gays community members in Australia are calling for a boycott of the coffee chain. Mercy Ministry is a non profit organization that supports Anti-Gay and Pro-Life. The community members felt threatened as they are indirectly funding the organization by purchasing Gloria Jeans product.

### Selection of Franchisee/Partners

Gloria Jeans is very particular in selecting franchisees or partners. The company stands by their values, which is “ Our partnerships are based on integrity and trust”. They only choose those that they prefer and they feel good with. This causes many opportunities that go into the drain for others that unsuccessfully applied. Gloria Jeans always keep to their vision, which is “ *To be the most respected and loved coffee company in Australia*”

### General Environment of the Coffee Industry

It is important for an organization to investigate the market they plan to enter as well as the external environments to guarantee that they will be ready and prepared. ‘ It is a great tool for any size organization who would like to have a simple to use tool for understanding the external forces influencing their market and performance’(Chenard 2008) which is ‘ crucial to ensure you remain ahead of the game and constantly aware of what is required of you and where you need to focus most attention.’

### Technological Developments

Technological developments in the coffee industry are focusing on three important aspects which is all year round harvesting, excellent quality beans and ‘ development in the management in coffee pest.’(Off service to the

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regional coffee industry 2006). 'Gloria Jean's buys and roasts its own coffees - controlling the process from the bean to the cup.' (Gloria Jean's Coffees goes WiFi, 2003) therefore it is important for them to know every aspect of the coffee industry to ensure that the products offered by them are top standard quality products and available at all times. Other technology advancement such as what 'Starbucks has done is the implementation of Internet cafes to attract customers.' (Martin 2005) should be taken into account.

### Social and Cultural Attitude Trends

The degree of social and cultural influences on the coffee industry will vary from country to country. Take Australia for an example 'Australia's strong coffee drinking culture has heavily influenced growth in specialist coffee shops, especially among the younger generation. Coffee drinking has become an integral part of the modern lifestyle in Australia and specialist coffee shops have become more than just a place for coffee.' (Hofmann 2006).

'Hot drinks in Australia continued to grow with total volume growth of over 3%. On-trade volume sales posted stronger growth than off-trade volume sales in 2007 due to the rising number of on-trade specialist coffee shops and other cafés/bars in Australia. The 2007 result was driven mainly by coffee, where the trend toward fresh coffee continued.' (Hot Drinks n. d)

The trend of coffee consumptions continues to change in both direction good and bad. The good side is people tend to have healthier lifestyles to replace alcohol noted by Mclver (n d.) recent health studies have shown that the

drink can also benefit the heart, fight cancer, diabetes and Parkinson's and it might also improve your sex life. Coffee tends to acts as a social catalyst and has moved into category of affordable luxuries.' (Martin 2005). However on the other hand the problem that Gloria Jeans faces in the modern world is the rise of obesity among people around the world. It is important for Gloria Jeans to understand this, as it will directly affect them in terms of sales and consumption. The picture below shows the percentage of obesity in each country.

*Source taken from Miscellanea 2007*

### Economic Trends

' Economic factors are an important aspects that concern the nature and direction of the economy in which a firm operates. Since the relative affluence of various market segments will affect the consumption patterns, companies must take this into consideration when planning its strategy.'(Kembell et al 2002). For example ' Australia has had one of the most outstanding economies of the world in recent years. As a high-growth, low-inflation, low interest rate economy, it is more vibrant than ever before. There is an efficient government sector, a flexible labour market and a very competitive business sector.' (Australia Today nd.). Gloria Jean's should take this as an opportunity as consumers in Australia have higher disposable income and are willing to spend more, research also suggest that ' coffee sales increase if the product is made more available to the consumer' (Strategic Analysis n. d)

### Demographic

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In regards of knowing which country are the top consumers in coffee consumption, the table below shows the top 10 worlds coffee consumers by size. Instead of targeting country which prefers others than coffee, for instance China with tea, it is easier to target countries with high consumption of coffee.

*Source taken from (World Top 10 Coffee Consumer Countries n. d.)*

### Political and Legal Environment

' The Political / Legal / Regulatory Environment can be simply described as the laws and regulations that business has to follow in order to make sure the business owners do not get arrested, or have the business fined for noncompliance of some regulation.'(The Political / Legal / Regulatory Environment 2006) In Australia there are many rules and regulations that were created for the coffee industry, such as the Fair Trade Certificate and the Rainforest Alliance. Where the ' Fair Trade certification is an alternative marketing system designed to give the disadvantaged farmers guaranteed prices for their product while The Rainforest alliance focuses on how farms are managed rather than how products are traded.' (Sustainable Coffee nd.). In order for Gloria Jeans to go global, Gloria Jean's management team should formulate their strategy based on the different legal situations in different countries where Gloria Jeans buys and sells their coffee such as the tax policies, tariffs and trade restriction.

In conclusion, ' it is well understood that general environment may not be ignored'(Flanagan and Norman 1993, 55). Since in most cases, company or individual do not have the ability to control and the shift in general

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environments may change anytime drastically or slowly, some to our advantage or some to our disadvantage. Therefore attention must be given to evaluate each of the environments to enable them to analyze and be aware of any changes to minimize risk. However because it is unclear how the general environment impacts Gloria Jeans further analysis have to be done to assist Gloria Jeans in understanding the industry and the market.

### External Environment Analysis on Gloria Jeans In The Coffee Industry

#### Porter's five forces analysis

' The purpose of conducting Porter's five forces analysis is to analyze every single aspect of the industry from the intensity of rivalry to the attractiveness of an industry and to identify the most common threats faced by the firms in this industry.' (Recklies 2007)

Some of the major threats in the external environment for the business operations of Gloria Jeans are as follows:

#### Threats Of New Entrants

The threat of new entrants for the coffee industry in Australia is considered high; the reason for this is because ' Australia's strong coffee drinking culture has heavily influenced growth in specialist coffee shops, especially among the younger generation.' (Hofman 2006) this shows an opportunity for people to venture into this business. Other things to be noticed is the barrier of entry to set up a coffee shop in Australia is low, noted by (Eselius et al. 1997), ' it takes little more than four small walls or even a kiosk to deliver high quality coffee to the thirsty masses.' ' In accordance to this point

of view Grant (1998) suggests that a company can erect barriers to entry by creating and exploiting economies of scale, by product differentiation, contrived deterrence or using government policy to deter entry.'(Martin 2005)

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### Bargaining Power of Buyers

Rather than going consumers going all the way to Gloria Jeans's for a cup of drink especially coffee, they prefer to purchase different brands of coffee from the nearest stores or supermarket. ' Buyers of coffee show a variety of price sensitivities. At the low price end, coffee is often considered a commodity and, accordingly, demonstrates price sensitivity.'(Eselius et al. 1997). Take for example Starbucks's coffee case ' in 1994 freeze in Latin America raised the prices of Arabica beans worldwide, which in turn puts pressure on the prices of Starbucks coffee beverages. Consumers did not balk at the higher prices. The Starbucks brand stands for quality, and consumers have shown great willingness to pay for that quality.'(Eselius et al. 1997). Other threats to Gloria Jeans are that the customers of Gloria Jean's have low or no switching cost in switching to other competitors for example to Coffee Club and the ability of its customers to brew their own coffee. Therefore it is important for Gloria Jean's to build its brand around quality and pricing to increase its customer base and customer loyalty. ' The Australian coffee market is very competitive but consumers are brand-loyal, and becoming more sophisticated.'(Australian Coffee Stats 2006)

### Bargaining Power of Suppliers

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' Coffee is the world second largest traded product after petroleum' (Kembell et al. 2002). The supply of coffee is determined by weather, demand and sometimes quality of the beans. It is said that the demand for coffee ' in Australia has increased by 60% over the past 10 years, with the higher quality 'Roast and Ground' market now comprising 20% of total imports. Demand for 'Roast and Ground' coffee increased by 6. 3% in 1996 compared to 1. 4% for instant coffee.'(Drinman and Peasley 1997) and this has caused ' the major players in the coffee industry have seen profits decline because of over-crowding of the market' (Kembell et al. 2002) thus it will give the suppliers higher bargaining power. ' Other factors that affect the bargaining power of suppliers are the condition of the weather and the health of coffee trees for example during winter seasons.' (Kembell et al. 2002)

#### Threat of Substitute Products and Services

The threat of substitute products can be considered average for Gloria Jean's in the coffee industry. ' Other beverage industries can satisfy the customer's need for a drink, and other food industries can satisfy the customer's need to eat.'(Kembell et al. 2002). However, ' though it may be said there is no substitute for a good cup of coffee or coffee beans, coffee bars are beginning to face significant substitution threat in the form of alternative distribution outlets.'(Eselius et al. 1997).

#### Intensity of Rivalry among Competitors

' The more concentrated an industry is, the fewer the competitors are, and the more likely that competitors will recognize their mutual interdependence and so restrain their rivalry.'(Simeon 2006) ' Gloria Jean's Coffees is the

largest specialty coffee retailer and the fastest growing franchise organisation in Australia.' (Skinny Caramelatte the new low fat alternative 2004) However it faces very tough competition from Coffee Club, Hudson Coffee and not to mention Starbucks in this industry, the reason for this it is said that the coffee industry market growth is declining. ' Competitors are selling similar products, including specialty coffees as well as high quality foods. In this slowing market, competition is high.' (Kembell et al. 2002). Other threats to be noted is that the ' major chains and many of the independent specialist coffee shop outlets that operate in Australia also engage in promoting premium varieties of coffee by educating their customers about the different coffees that are available. This strategy has led to increased sophistication among coffee drinkers and accounted for the disproportionate rise in the value sales of specialist coffee shops, compared to the number of transactions in 2004.' (Hofmann 2006)

In summary it can be said that for Gloria Jean's, the coffee industry is still considered an attractive market even though the five forces analysis shows medium to high threats. Shown in the graph below, the threat of new entrants, intensity of rivalry and bargaining power of suppliers and buyers is high. However the threat of substitute product is considered moderate to low as said above there are no direct substitute to a cup of coffee or coffee beans.

Bargaining Power of Buyers - (HIGH)

Threats Of New Entrants - (HIGH)

Bargaining Power of Suppliers - (HIGH)

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Threat of Substitute Products and Services - (LOW TO MEDIUM)

Intensity of Rivalry among Competitors - (HIGH)

Competitive Structure of the Coffee Industry

Competitive structure for any industry is very crucial to the business. With the structure it is to help with a better picture of the industry overall as well as identifying the competitors in the market. Competitors can come in both forms either direct or indirect. Based on the research that has been carried out, for Gloria Jean's there are three major competitors within the coffee industry and also several indirect competitors. The main objective of this structure is to identify the major competitors but it is advisable to know the indirect competitor as well so that the company could achieve an overview of all the possible rivalry.

Direct Competitor

The direct competitor for Gloria Jean's Coffee would be Starbucks Coffee and Hudson's Coffee. These two coffee chains are the largest coffee chain in Australia

(Gee and Gee 2006).

As for Starbucks Coffee it could be one of the largest chains because of the strong branding image towards their coffee. Starbucks first started its business in Australia at the year 2000. At that time it was growing slowly because all stores are company owned and none are franchised as to compare with Gloria Jean's. But Starbucks Coffee is slowly picking up by

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opening more stores especially in the malls and its more a franchised business now.

For Hudson's Coffee, it a purely 100% owned and a fully operated company by Australian. Hudson's Coffee started out firstly in Melbourne 1998. It now has over 30 stores in Australia and has begun to franchise its operation to achieve more rapid growth (Coffee the Australian Way 2006).

With regard on the idea that the competitors for Gloria Jean's coffee is using the franchised method on doing business as well as the strategic way Starbucks Coffee used to classify its product uniqueness that is different from the others. This is where Gloria Jean's how to look into and tap its market share back across the countries which Starbucks had taken over.

#### Indirect Competitor

Apart from the two main competitor, Gloria Jean's Coffee is also facing with its indirect competitors such as;-

- Dunkin' Donuts
- Krispy Kreme
- McDonald's
- Independent Espresso Bars

As for the donut stores such as Dunkin' Donuts and Krispy Kreme apart from the donut they do sell beverages such as juice, coffee and tea. When customers drop buy to have the donuts at the same time they are able to have coffee at the store as well and it is not much difference than the other big establish coffee chain. National doughnut-shop chains, such as Dunkin'

Donuts and Krispy Kreme, may prove to be a more serious competitive threat. Dunkin' Donuts has been particularly aggressive of late, appealing to the blue-collar customer with a new line of espresso drinks (Gloria Jeans Gourmet Coffee 2004).

Where else for McDonald's they are also now selling coffee using the arabica beans as well for its customers there is a free re-fill of coffee during breakfast hours. Besides in some other countries such as Tokyo, Australia, United States they are advertising and selling its McCafe which is coffee. McDonald's diversify the by previously selling just the arabica coffee to several McCafe. The McCafe consist of latte, mocha, cappuccino, espresso, ice latte, vanilla steamer, ice mocha and premium hot chocolate (McDonald's Coffee 2005). This might attract customers to actually go to McDonald's to have coffee and the price are relative cheaper than Gloria Jean's. In March, Consumer Reports magazine reported a taste test of basic black coffee found McDonald's stronger blend beat brew from Starbucks, Burger King Holdings Inc. and Dunkin' Donuts Inc (Burritt 2007). Besides McDonald's do serve biscotti, just like Starbucks and other coffee chain.

Independent Espresso Bars are also an indirect competitor as well. One reason for this is that unlike in the United States and Asia, Australians already had decent espresso before the chains came in (Coffee the Australian Way 2006). In addition some customers would like to visit these espresso bars because they just like how the coffee is made using the traditional way rather than using the coffee machines like the rest of the coffee chain. The other major gripe that Australians have with chains is their increasing use of fully automatic and semi-automatic espresso machines

rather than making espresso and steaming milk the traditional way using manual espresso machines (Coffee the Australian Way 2006).

In conclusion, it crucial to develop a competitive structure to overview the most aand smallest possible outcome of competitors that could harm the coffee business. From the research in the external as well as the internal analysis, coffee industry in general is of highly competitive nature. There are more and more other companies of a smaller independent coffee stores are coming up.

## Gloria Jean's Resources & Capabilities

### Resources

Understanding the organization's resources and capabilities is both important in order to succeed in the competitive environment of today and the future. This requires Gloria Jean's management team to understand the marketplace trends and their competitive implications. By having all the information and knowledge, they can plan their strategy, and a good strategy will always determine the success of an organization. Therefore, internal analysis need to be done as per to underlines their unique resources and capabilities in order to develop a competitive advantage. While the external analysis did find out what the company might do, the internal analysis will examine what the company can do (Hanson et al. 2005).

Outlining Gloria Jean's resources would consist of two (2) parts; tangible resources and intangible resources. According to Hanson et al., tangible resources means the attributes that can be seen and counted, while



intangible resources can neither be seen nor counted, but valued. Thus, intangible resources are hard to imitate, because they are more difficult to understand (Hanson et al. 2005).

## Tangible Resources

### Financial Sector

Gloria Jean's Coffees management team manages to expand their franchises internationally and have full control over their franchisee. Based on the Diedrich Coffee Reports, total revenue for the third quarter of fiscal year 2008 is \$11, 322, 000 compared to total revenue of \$8, 975, 000 in the same period of the prior year. There is 26. 1% or \$2, 347, 000 gain in the overall revenue. The table below shows the revenue with respect to the components of total revenue (InterestAlert. com 2008).

	Revenue	Loss (-) / Gain (+)
Wholesale Revenue	\$2, 773, 000	+ 40. 2%
Franchise Revenue	- \$198, 000	- 23. 1%
Retail Sales	- \$228, 000	- 18. 6%

	000	
<i>Total Revenue</i>	<i>\$2, 347, 000</i>	<i>+26. 1%</i>

*Source: InterestAlert. com*

As per year-to-year date, it is reported that total revenue increased from \$25, 392, 000 to \$31, 930, 000 in the same period of the prior year. The table below shows the revenue with respect to the components of total revenue.

	Revenue	Loss (-) / Gain (+)
Wholesale Revenue	\$7, 148, 000	+ 36. 9%
Franchise Revenue	- \$524, 000	- 20. 0%
Retail Sales	- \$86, 000	- 2. 5%
<i>Total Revenue</i>	<i>\$6, 538, 000</i>	<i>+25. 7%</i>

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*Source: InterestAlert. com*

Based on the report above it is well understood that Gloria Jean's Coffees is trying to boost up their franchise revenue and retail sales. According to Wealth Creator Magazine, Gloria Jean's annual turnover was \$85 million and the company employed 3, 500 Australians after eight years operating the business (Wealth Creator Magazine 2006). Joint owner of Gloria Jean's Coffees International Pty Limited, Nabi Saleh said he and his partner Peter Irvine have aggressive expansion plans for both the domestic and International operation. " Internationally we are focused on emerging markets with plans to open new operations in England, China, Hong Kong, South Africa and Japan in the first year. We have our eyes on other countries in the following years and of course will be working to grow our existing franchise operations." said Mr Saleh (Gloria Jeans Archives 2004). Get help with your essay from our expert essay writers...

### Organisational Resources

Gloria Jean's Coffees has set up an acquisition with Citymax India, which is a part of the Dubai-based global retail giant Landmark Group, to launch a chain of coffee houses across India. The managing director of Citymax India, Ravi Saxena, believes that there will be a growth opportunity in coffee industry in India, as he expect number of coffee outlets will double in the next four years. (LiveMint 2007) As a result, Gloria Jean's Coffees is able to achieve higher economies of scale and global distribution network through

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mergers and acquisitions. It is stated that Gloria Jean's Coffees and Citymax India have done an extensive research in the country's market over the past six months in order to tackle the issues such as product positioning, pricing, sourcing and returns. (Sadhvani, B n. d.)

### Physical Resources

Gloria Jean's Coffees is primarily owned by Diedrich Coffee, it's US based parent company. Apparently, Jireh International Pty Ltd bought over the ownership and Jireh International Pty Ltd holds the right to franchise the rights Gloria Jean's Coffees in Australia. In addition, they have bought the rights to the brand name of Gloria Jean's Coffees for all international countries, except USA and Puerto Rico. Jireh International Pty Ltd is a wholly Australian owned company. Therefore, it is much easier for them to gather source of labour. Johnson et al. have mentioned that the labour force could even be a source of competitive advantage (Johnson et al, 2004).

### Intangible Resources

Intangible assets such as intellectual property; inventions, patents, copyrights; original business concepts; creative product; brand name recognition; goodwill; innovative concepts, ideas, techniques is part of an economy based on creativity. These factors could increase the economic value (BNET 2003). Gloria Jean's intangible resources can be categorized into three (3) parts.

### Human Resource

Instead of having their shareholders or partners develop the appropriate skills and knowledge about the coffee business, Gloria Jean's Coffees actually provides an ongoing support for all their franchisee. (Franchising. com n. d.)

#### Innovation Resource

Gloria Jean's Coffees is one of a dedicated company that strives and have done countless effort in order to make sure that the product they sell have a huge impact on people's daily lives. They have continuously developed their beverages to look tempting to attract customers. Besides, they have spent a large sum of money for Research & Development in order to gain competitive edge to compete with the other main competitors as well as the local coffee stores. (Franchising. com n. d.)

#### Reputation Resource

Gloria Jean's Coffees has a strong brand image (Gloria Jeans Archives 2004). The brand is built around premium quality and excellent taste. " Importance of branding is that the company name must be different and unique" (Fuchs, C n. d.). Gloria Jean's Coffees needs to