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Grupo Britt N.V.: should it seek to expand business in the USA?

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Abstract

Purpose – The purpose of this case study is to describe the Costa Rican coffee roaster and retail company Grupo Britt and provides sufficient information for readers to discuss the company's growth options in the US and Latin American markets. It has been prepared to facilitate discussion and learning about appropriate growth strategies and the building, positioning and branding of companies from emerging economies within the internationalization processes.

Design/methodology/approach – The case study is based on primary research conducted in conjunction with the company, including interviews with senior management and an ample review of documents. Secondary research was also conducted into the relevant environmental, industry and competitor trends and characteristics.

Findings – The case presents the ways in which Grupo Britt has been successful in developing a new business model based on the concept of a "sense of place." This translates as meaning that the company generates products and services that highlight the particular characteristics of the place(s) in which it operates.

Originality/value – This is a complex, in-depth case study suitable for use with advanced MBA students and practitioners. Depending on the aims of the instructor, different aspects of the case can be highlighted and it can be used in a course or module focussing on strategies for growth or internationalization, international business or marketing, or brand management

Keywords Brand management, Latin America, Internationalization, Differentiation, Strategies for growth

Paper type Case study

In January 2011 Grupo Britt's CEO Pablo Vargas sat looking at the data the company had recently put together to address two key questions top management hoped would take the company forward, growing it from a company that employed around 1,000 people, with expected revenues close to $100 million for 2011, to achieve the next goal of reaching $160 million by 2015. Vargas needed to decide exactly how to position the Britt brand and how the Grupo Britt should grow its presence in the US internal market. The debate had been intense, with three alternative viewpoints regarding the positioning the group should seek to establish. One perspective argued for positioning Britt as a Costa Rican Masterbrand of gourmet coffees and chocolates. A second view was that the brand should be positioned as a purveyor of gourmet Latin American coffees, cookies and confectionery. The third was for positioning Britt as the purveyor of gourmet coffees, cookies, and confectionery, without any attachment to a particular country or region. Vargas had to weigh the data and make a final call before a recommendation could be made to the Board, headed by Philippe Aronson, the son of Grupo Britt's founder. The decision was critical as Britt Brands (Figure 1) was

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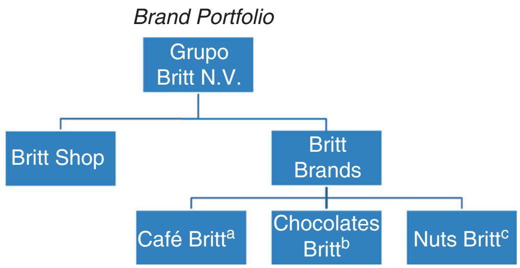


Notes: [a]Café Britt includes all coffee varieties plus dark chocolate cookies, guava cookies, and mocha cookies. [b]Chocolates Britt includes gourmet coffee chocolates, chocolate covered nuts, tropical fruit chocolates, and gourmet hot cocoa. [c]Nuts Britt includes salted and unsalted nuts and Choco Nuts

Source: Grupo Britt N.V.

Figure 1.
Brand portfolio

gathering itself for a significant push into the US market, hoping to grow its business in the USA beyond its existing direct sales activities.

Grupo Britt

Originally known as Café Britt, Grupo Britt was founded in Heredia, Costa Rica, in 1985 by Steve Aronson, a New Yorker who began working for a European coffee trading company in the 1970s. As a part of his training, he became an accomplished coffee taster. He developed a particular appreciation for the coffees of Costa Rica and was determined to settle in that country. By 1985 he had moved to Costa Rica and was exporting green coffee beans through Granex International, his export company. Upon tasting a cup of coffee at the Gran Hotel in the Costa Rican capital San José, he asked himself how it could be that, even in the best hotels in the country, it was not possible to find a decent cup of coffee. Aronson was inspired to start a new business, a company with the mission of roasting beans from the country's best coffee farms and offering gourmet coffee[1] to the growing tourist segment, and to Costa Ricans wanting to taste their finest beans at a time when all were exported. Aronson called the fledgling company "Café Britt" because he wanted a name that would evoke the quality demanded by the most exacting coffee connoisseurs in the world: people who lived and breathed coffee, such as the Scandinavians.

To accomplish his mission, he initially set up a roaster in the garage of his home and set about educating the hotel and restaurant owners who catered to tourists and converting himself into the main supplier of coffee to San José's top hotels. Aronson aimed to persuade the managers of tourist hotels and restaurants that foreigners had a different view of what high-quality coffee was. This proved difficult, because many restaurateurs believed the coffee they were serving was just fine.

Britt was characterized by a continuous search for quality and excellence, especially when it came to its products. The company identified the following four key principles: communication, commitment, creativity, and character. These principles implied that the Britt team would always seek to communicate in a simple, sincere, and timely fashion; produce results on time; pay close attention to detail; anticipate customer needs and desires to create new and profitable ways to ensure customer satisfaction; and believe in doing the right thing: adhering to regulations and being accountable for the use of resources and knowledge. These principles encouraged the development of a favorable work environment, and helped develop a customer-friendly setting and a flat, informal, entrepreneurial, open-minded organization.

Aronson received frequent visitors as a result of his Granex operations. In 1991 the roaster and the three-hectare model coffee farm where the plant was located received many visitors wishing to learn more about this new coffee, which made him think of a novel marketing tool: a theatrical presentation telling the story of coffee, coupled with a technical demonstration of how it was produced. This is how the Britt Coffee Tour began. More than a tour, it was a show, during which visitors gradually realized that their guides were professional actors rather than plantation workers. After touring the coffee fields and learning about the different stages of cultivation and roasting, a comic musical performance took them from the origins of coffee production to the present time and taught them how to judge the taste of coffee. The tour ended in a store selling all types of Britt coffee along with mugs, T-shirts, caps, and other merchandise bearing the Britt logo as well as local handicrafts, jewelry and many other imported and local gifts. Annual visitor numbers rose to 40,846 in 2007. The tour's popularity subsequently declined, hitting 21,800 in 2010, as tourist preferences shifted toward beach and mountain locations instead of the Central Valley. Revenues from the store were not particularly important, but some executives considered the tour an important source of initial contact with potential direct mail customers.

In 1994, in order to reach out to tourists, Britt adapted a golf cart to sell espresso, cappuccino, and 12 oz. coffee at the Juan Santamaría International Airport (JSIA). It also began selling single hand-filled packages of coffee through the government-owned stores there. It began, too, to sell in supermarkets. However, Britt's sales of roasted coffee still accounted for only a small portion of Granex's revenue.

Grupo Britt never used mass advertising, relying instead on word of mouth and location (the stand at the airport). It did advertise its products in specialized journals (tourist related and management magazines such as *Irazú Best Western Hotel Magazine* and the *Revista Summa*) and on its web site. By the mid-1990s the Costa Rican market for gourmet coffee appeared to have reached saturation, with the highest per capita consumption among producing countries (7.35 kg per capita). Britt sales had leveled out at around 200,000 kg per year, sold through the Coffee Tour (26 percent), hotels and restaurants (16 percent), the airport stand (5 percent), and supermarkets (53 percent). Britt reached a 60 percent share of the gourmet coffee segment. Its price ($7.00 per kilogram) was on average 45 percent higher than that of the other five companies in the gourmet segment.

In search of growth, Aronson decided to explore other markets and began exporting modest amounts of roasted coffee to the USA and Canada, originally using a 1,800 number and later the web site. The concept was to provide customers with fresh roasted coffee straight from the farm. This positioning appealed to gourmet coffee aficionados and was supported by the positive image of Costa Rica as a picturesque, peaceful country of coffee farms sitting on volcanic slopes amid luxurious cloud forests. An early slogan that is still in use was "Café Britt – from the plantation to your cup."

Britt's initial entry into the US market

Grupo Britt's initial foray into the US market was a mail order business targeted at people who had visited Costa Rica, encountered the Britt brand there and taken the Britt Coffee Tour. However, Aronson soon encountered problems with laws and regulations that hindered exports of roasted coffee. Export procedures for bulk commodity shipments of coffee beans applied equally to the export of roasted coffee. Regulations specified that coffee could only be exported in 69 kg bags, regardless of whether it involved bulk commodity shipments or roasted beans intended for retail. The process was bureaucratic and expensive ($75 per shipment), making it impossible to sell 12 oz. bags of roasted coffee directly from Costa Rica. Additionally, coffee imports were forbidden by law in order to prevent companies blending coffees for export.

A trade bill was passed in 1994, which classified roasted coffee in bags of 5 kg or less as a "non-traditional export," eligible for a tax rebate of 10.5 percent, use of accelerated depreciation, and exemptions from the export tax levied on green coffee beans and from import duties on machinery and equipment. This law made the mail order export business feasible and Britt was able to increase its exports to the USA. To comply with regulations, Britt sent shipments in 40-foot containers to a contractor in Connecticut who repackaged and dispatched the coffee to the final consumer, a procedure that increased shipping costs. The roasted coffee was packed in patented aroma-lock valve packs, made in Israel, with a one-year shelf life. It was sold at an average retail price of $7.00 per 12 oz. bag.

Aronson did not give up on his ambition to base the mail order business in Costa Rica and ship small packages directly from there. He took advantage of a visit to the country by Harvard University strategy expert, Professor Michael Porter, to convince the authorities of the benefits of his claims. As a result of these efforts, in 1996 the Costa Rican Coffee Institute (ICAFE) declared that roasted coffee "was not coffee" and was therefore not subject to the export procedures prescribed by law. In consequence, Britt was able to double its mail order business inside two years. It developed three different programs to deliver its products directly from Costa Rica via courier service (DHL): the Britt Coffee Lover's Program was a subscription service offering regular shipments of coffee and travel arrangements to Costa Rica; the Gift Program was a single-purchase program available anywhere in the world that included a gift box with a personalized card; and the Wholesale Program offered volume discounts to purchasers of larger orders.

Starting in 1996, Grupo Britt also introduced its coffee to commercial clients in the USA through Albertson's, one of the top US food and drug retailers with more than 800 stores in 20 western, mid-western, and southern states. Within a year, 120 Albertson stores carried the company's coffee with no advertising investment required from Britt. That year the company also added a three-day coffee training seminar aimed at coffee industry professionals. The seminar focussed on how agronomic characteristics, regional variations, and different processing methods contribute to the quality and flavor of coffee. Participants picked coffee, experienced the milling and roasting processes and visited several coffee-growing regions. During cupping sessions they could taste how different regions and their climates impacted on coffee flavor, body, and aroma.

In 1998, to further boost sales, Aronson entered into an agreement to begin selling in Sam's Club, a division of Wal-Mart, with 436 outlets throughout the continental USA. Unfortunately, by 2000 these retail initiatives were floundering. Sales through Albertson's were stagnating to the point that products on the shelves were approaching their expiry dates. The deal with Sam's Club was in trouble too because, although consumer response in upscale neighborhoods was excellent, sales lagged in lower income areas. Eventually, Britt was removed from the chain because, as one Wal-Mart executive explained, "Sam's Club stocked only high-volume items that turned over rapidly among all socio-economic groups and could thus be distributed to all outlets through the company's low-cost logistics system."

Growth opportunities outside the USA

Given the difficult retail experience in the USA and the need to grow, early in 2000 Grupo Britt made the strategic decision to expand in Latin America, first targeting tourists, and then the local population. The decision was triggered by an opportunity created in 2001 by the Costa Rican Government's ruling to offer the JSIA in concession to a private operator. This decision opened the way to establishing a Britt Shop at the airport, upgrading from the mobile cart the company had been allowed to operate while the airport was under government control.

The concept of the Britt Shop was to enable tourists to take something tangible home from their holiday experience in Costa Rica (Plate 1). Thus, the store not only stocked the entire line of Britt coffees but also a range of gourmet chocolates under the Britt Chocolates brand, with fillings made from different types of local fruits and nuts that were not widely available outside Costa Rica. The stores also carried a range of local nuts branded Britt Nuts, as well as Britt-branded paraphernalia and local handicrafts, cups and several thousand additional imported and local SKUs similar to those available in the store attached to the Coffee Tour. The new Britt Shop was a huge success; the top executives and the board of directors quickly realized that retail represented an important way to grow and they resolved to open other stores in local hotels and tourist spots.

In 2004, an opportunity emerged in Peru. One of the partners in the development of the JSIA took part in the successful bid to upgrade the Jorge Chávez International Airport in Lima. Grupo Britt was invited to participate in the new airport. Considering the historic sites in Peru (e.g. Machu Picchu) and the potential for growth in the tourist sector, Britt saw this as a great opportunity and invested in three shops: at the airport, one in the JW Marriott Lima and in a coffee roasting facility.

The stores carried Britt branded Peruvian gourmet coffees and chocolates with autochthonous Peruvian fruit fillings, Peruvian handicrafts and souvenirs and Britt-branded mementos. Thus, a tourist coming to Peru would see Britt as a local

(a)

(b)

Source: Grupo Britt N.V. (personal communications 2010-2011)

Plate 1.
Airport new concept of a Britt Shop

Peruvian brand, a necessity if the objective was to make tourists' vacation memories tangible. As CEO Vargas put it, these are stores with a "sense of place." These decisions were a big step and a change from the brand's original positioning which had been captured by its slogan "Costa Rica sells Britt and Britt sells Costa Rica."

Rapid retail growth showed Britt was more than a coffee roasting and trading company. It was beginning to pursue a new, successful, replicable business model. It also acknowledged the need for further innovation focussing on products other than coffee and chocolate, in line with the location of its stores. By 2010, Britt had expanded its branded product line to include different presentations of original Britt products, confectionery, white and dark chocolate, chocolate powder, and other goods including cold drinks, biscuits, jellies, and hot sauce. Under the leadership of the innovation department Britt developed on average 30 new products every year.

The company expanded by opening stores in other airports: Curaçao (2006), Santiago, Chile (2007), Miami and St Thomas (2008), Antigua and Barbuda (2009), and Mexico City (2010). Britt created a multidisciplinary team that researched and intensively toured the target countries to understand the underlying themes that attracted travelers. These were then used to open country-specific stores and products. Cabinet color, fixtures, music, decoration, store staff and uniforms were all carefully selected to create an interactive space in harmony with each country and culture. Staff were selected and trained for service excellence, while recruitment procedures focussed on hiring entrepreneurial, bilingual personnel and people who had lived outside their home countries at least for a short period of time. Britt believed these characteristics would increase customers' empathy in recognition that most were tourists. By late 2010, Britt had over 76 stores in airports, hotels, and tourist destinations in nine countries, with more than 4,500 SKUs.

In 2010 Britt obtained a new contract in the Dominican Republic and planned to open six stores in 2011, covering the airports of Santo Domingo, Puerto Plata and Samaná. As of January 2011 the company was competing for two new store concessions at the JSIA and to regain another that it had lost to a different retailer a few years before. Britt's executives were very optimistic about obtaining these concessions as the airport operator's experience with other retailers had not been good. Britt had also decided to compete for a site in the Daniel Oduber International Airport in Liberia, Costa Rica.

Wholesale distribution

In 2010, Grupo Britt appointed DHL to distribute its products in Costa Rica and to support retail channels, excluding distribution to its own stores. To consolidate its presence in hotels and restaurants, Britt entered into an agreement with the regional hotel chain Camino Real Intercontinental, to serve as the exclusive supplier of coffee to its operations in Costa Rica, providing coffee bags for coffee makers in rooms and coffee for the hotel restaurants. Six months later, Britt was contacted by Marriott and Barceló, both of which had extensive operations in Central and Latin America, to be their local supplier. This offered the potential to expand regionally in this particular market.

Britt took advantage of these agreements and developed a Horeca (hotels, restaurants and cafés) channel as a platform for their activities in this area. Not only did the platform allow Britt to distribute its products, but it also gave it a chance to offer technical assistance and training on how to prepare drinks and distribute French presses and other beverage-making equipment. In parallel with its strategy of opening stores in airports, hotels and tourist sites, Britt also pushed for broader distribution in supermarkets and other retail stores in the Latin American markets it had already entered. By 2010, Grupo Britt had 1,500 Horeca accounts in Costa Rica, 200 in Peru, 80 in Chile, and 50 in Mexico, while customers in other countries, including the USA, amounted to 300 (Table I). In 2010 Britt had reached $70.6 million in sales (Tables II and III), through its shops (71.5 percent), Britt branded products (24.6 percent including direct sales), the Coffee Tour (2.1 percent) and other activities (2.5 percent).

Grupo Britt's direct sales in 2010

In 2010, 75 percent of direct sales, which totaled $5.5 million, were made through the company web site, 21 percent by phone, and 4 percent by other means. Sales rates had been growing by an annual 7 percent, but in the strategy discussions conducted in September 2010, senior management had proposed a direct sales goal of $20 million by 2015, which required a rethinking of the direct sales strategy required to achieve the goal.

Country	No customers	Major hotels	Supermarket chains
Costa Rica	1,500	Paradisus Conchal	Automercado
		Costa Rica Marriott	Wal-Mart
		Los Sueños Marriott	Fresh Market
		Four Seasons	
		Hilton	
Peru	200	JW Marriott	Wong
		Swiss Hotel	
		Casa Andina	
		Libertador	
		El Monestario	
		Tren Machu Pichu (Orient Express)	
Chile	80	Marriott Santiago	Jumbo
		Valle Nevado	Lider
Mexico	50	Fairmont Mayakoba	Superma
		JW Marriott Cancun	Wal-Mart
		Marriott Casamagna Cancum	Heb
		Palace	
		Royal	

Source: Grupo Britt N.V. (personal communications 2010-2011)

Table I. Major hotels and supermarket chains where Grupo Britt was sold

	For the 12 months ended December 31 2007	2008	2009	2010
	US$ (000)			
Revenue				
Sales	58,968.00	66,039.00	60,355.00	70,345.00
Green coffee sales	5,314.00	1,804.00	632	352
Total revenue	64,282.00	67,843.00	60,987.00	70,697.00

Source: Grupo Britt N.V. (personal communications 2010-2011)

Table II. Income for 2007, 2008, 2009, and 2010

Table III.
Financial statements 2008, 2009, and 2010

Year	Direct market/ web site	Café Teatro/ Casita	CR retail	Peru	Curaçao	Chile US$(000)	St Thomas	Miami	Antigua	Mexico retail	New Caledonia	CR Café Britt	Others	Total
2008														
Revenue	5,211.00	–	20,570.00	11,617.00	3,399.00	10,410.00	–	784	–	–	–	10,791.00	5,061.00	67,843.00
Results from operating activities	1,194.00	–	3,402.00	2,598.00	743	2,373.00	–	−127	–	–	–	1,497.00	120	10,604.00
2009														
Revenue	5,151.00	1,898.00	15,362.00	11,717.00	2,865.00	10,255.00	647	1,701.00	68	–	–	9,241.00	2,081.00	60,986.00
Results from operating activities	1,219.00	353	2,899.00	2,316.00	312	1,859.00	−170	257	−139	–	–	1,423.00	−184	10,146.00
2010														
Revenue	5,505.00	1,481.00	15,599.00	13,564.00	2,395.00	12,538.00	1,899.00	1,329.00	1,490.00	1,259.00	442	11,450.00	1,745.00	70,696.00
Results from operating activities	1,415.00	−30	2,020.00	3,090.00	26	3,353.00	−383	129	−82	−1,272.00	−109	2,200.00	−424	12,476.00

Source: Grupo Britt N.V (personal communications 2010-2011)

Historically, Britt's direct sales came from tourists to Latin America, especially from the USA, who accounted for 91 percent of sales. Tourists encountered Britt on vacation, fell in love with it, and joined the "Coffee Lover's Program" to buy its coffees and other products by mail order from home. Points of sale at airports, hotels, and tourist sites in Latin America as well as the Britt Coffee Tour in Costa Rica were key to these sales. As Britt Brands Director Fernando Castro explained, "the brand's 'sense of place' brought consumers back to their experiences at the site they had visited." This sense of place was representative not only of Costa Rica but also of the other countries where Britt operated. By 2010, the "Coffee Lovers Program" had more than 140,000 members.

Coffee accounted for the vast majority of sales in the USA. Costa Rican coffee was responsible for 91.1 percent of sales and Peruvian for 2.5 percent; next came chocolates (4.9 percent) and crackers and seeds (1.2 percent). Other Britt-branded goods (espresso cups and French presses, among others) accounted for 0.2 percent of sales. Mexican coffee, which had recently entered the market, accounted for the remaining 0.1 percent. This pattern of sales reflected the fact that coffee was the company's most traditional product as well as the reputation of Costa Rican coffee as a premium product. However, the company strived to promote and improve sales of all of its products through special promotions, web page advertisements, electronic and physical mailings to members of the Coffee Lovers Program, and free samples added to orders. The increase in sales and in the customer base was influenced by three major factors: customer throughput in stores and/or visitors to the Britt Coffee Tour; customers finding the company's web site when searching the internet for high-quality coffee; and recommendations from existing customers. Consumer perceptions of the company and its products were very positive. After more than 15 years selling directly, Britt had achieved a high degree of brand loyalty (Table IV) making customer recommendation highly likely.

Marianela Monge, Direct Marketing & Customer Service Manager, was considering alternative ways to achieve the new goal. One option was to strengthen affiliate programs in which Britt contracted with companies like Commission Junction, Google, and LinkShare to connect with members of these networks who displayed the characteristics and lived in the places that interested them. Britt paid "per click" or "per action" (Table V)[2]. By 2010, this type of initiative contributed 14 percent of the company's online sales. Britt also had a sales presence in sites such as Alice and eBay, and had a staff member responsible for updating information and launching promotions on social networks like Facebook and Twitter. In addition, Britt was invited to be a product selection on the Amazon Grocery and Gourmet Food virtual store, because of its internet sales activity.

Monge was not sure which tools to focus efforts on, or whether there were other ways to grow the business that were currently not being considered. Britt internal data showed that the most effective current program, as a web sales driver, had been the e-mail campaigns, which accounted for 36 percent of internet sales. This was also the most cost-effective program as it required investment only in easily used, inexpensive software and the cost of employing one person to write promotional flyers and send them out by e-mail. Affiliates were the most expensive of the programs, but second in efficacy. As noted, they contributed 14 percent to Britt's online sales at a cost of 10-12 percent of sales, when a sale is accomplished on a click. Initiatives like the one at Amazon are expensive, as Britt has to pay the company 20 percent commission on sales. However, the exposure that appearing on the Amazon web site generates for the brand is very valuable.

"I have been working in the coffee business for about 1. 5 years now, and have been a coffee lover for much longer. A friend of mine brought back some of your coffee from a trip to Costa Rica. I found it to be some of the best I had ever had, including the much-touted Jamaican Blue Mountain! Thank you." Scott, Norfolk, VA.*
"Please close my standing order of Britt Coffee for participation in the Coffee Lover's Club. I will be relocating outside the US, to Bosnia and will not have mailing privileges at this new post. I have enjoyed Café Britt for the past seven years, four while living in Latin America and purchasing it locally and then during these past three years in the US by purchasing it through your wonderful program. I've got many of my fellow coffee drinkers hooked on Britt and hope you continue to have success with your business." Clay,*
"We were in Costa Rica this year we bought quite a bit of coffee and gave some of it as presents. We're sorry now we gave some away. It is outstanding. I was pleased to find you on the web site and to be able to order. I will order in advance when we run low. The brand in America, which is so popular, doesn't hold a candle to Café Britt I'd rather have your product. Thanks." Louis, Urbana, IL*
"I just recently returned from a mission trip to Costa Rica, and during the week I was served Britt coffee each morn. I found out very soon that I tasted the best coffee I have ever had in my life. Before I left I bought four bags of Britt and I found out from friends that we can buy it here in Houston at the Festa stores. However, I am going to look into your order form and probably order the coffee straight from you. Every morn when I make a pot of Britt coffee it reminds me of the wonderful time I had in your country, thanks." […] Paul, Houston,*
"On a trip to Costa Rica I had picked up a bunch of Shade Grown coffee, which was delicious. When I ran out I ordered online to restock the house. To my surprise Café Britt had so many to offer, I tried the Peru Pachamama Organic & it was awesome! It's only Pachamama for me now." By Vicki from Melbourne, Fl., on July 23, 2008**
"Easily the best coffee on Earth. I was in the Sacred Valley in Peru and I bought this coffee freshly ground from a market there. My intention was to give it to the villages as I hiked the Inca trail, but the coffee smelled so good I had to keep it. I drink this coffee black and steeped in a pot." By Maxwell from Calgary, Alberta, Canada on July 5, 2010**

Sources: *Condo and Porter (1997) and**Café Britt (2011)

Table IV. Grupo Britt N.V. customer comments

Company	PPC budget	April clicks	Google PPC keywords	Yahoo PPC keywords
Café Britt	$26-$46	15-21	19	9
Green Mountain Coffee	$310-$515	94-118	98	1
Coffee For Less	$667-$1,116	385-504	157	3
Gevalia (Kraft Foods)	111-$177	23-29	19	1
Peet's Coffee	$10-$19	64-80	1	1
Starbuckstore.com	$2,959-$5,179	1,119-1,419	167	1
Godiva.com	$911-$1,570	658-883	280	1

Source: Alexa (2011)

Table V. Britt and main e-competitors: Pay per Click (PPC) payment estimate for 2010

The US market in 2010

Coffee consumption

In 2011 the National Coffee Association published its 2010 Survey of Coffee Trends, which provides detailed information on consumption patterns and attitudes toward coffee in the USA (Figure 2). According to the survey, 86 percent of the population aged 18 and over drank coffee at home, 26 percent in cafés, 15 percent at work, 10 percent at restaurants and 3 percent at convenience stores/gas stations. While coffee consumption among adults was widespread, concern about the effects of caffeine on health, combined with changing lifestyles that placed less emphasis on breakfast, had led

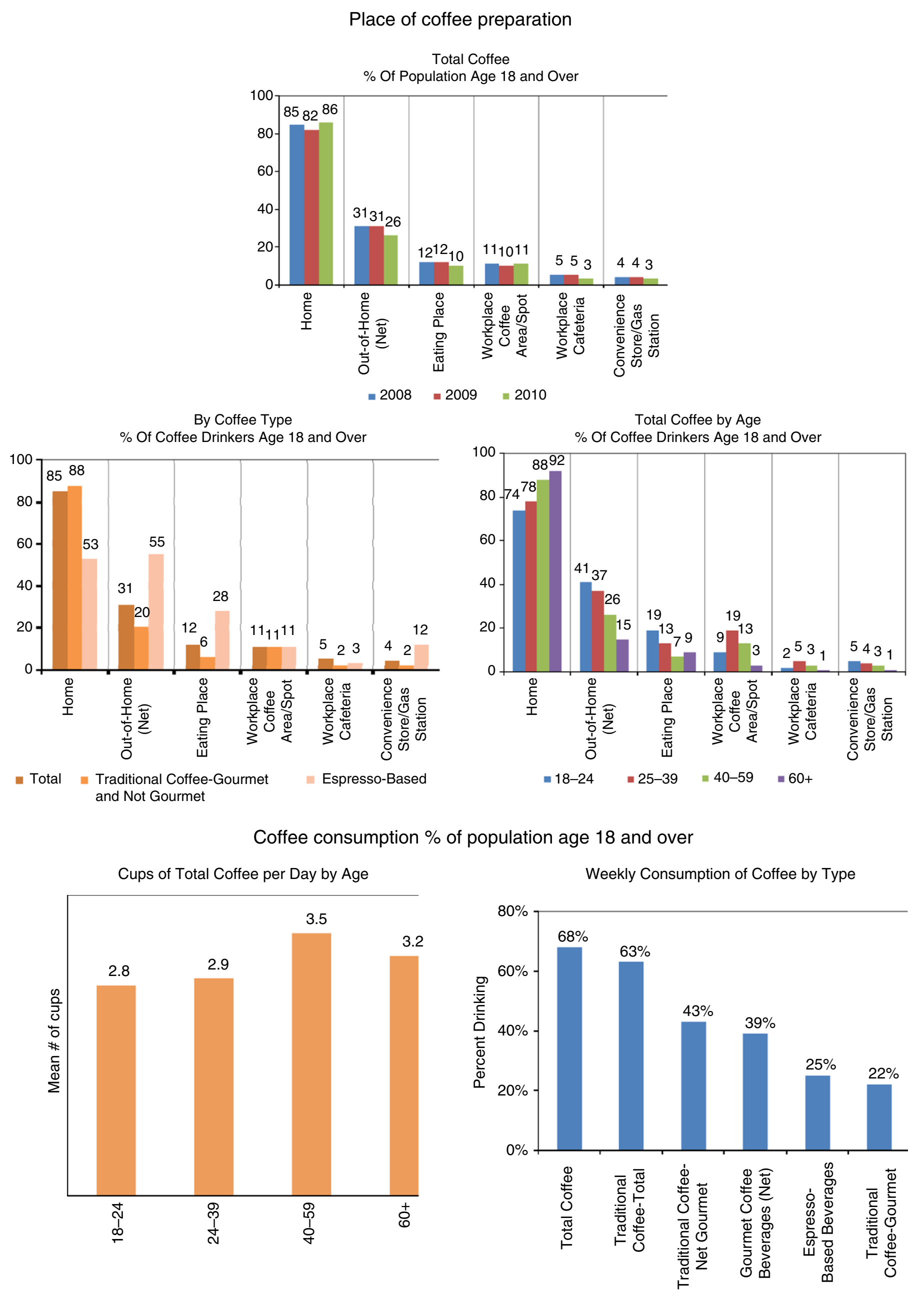
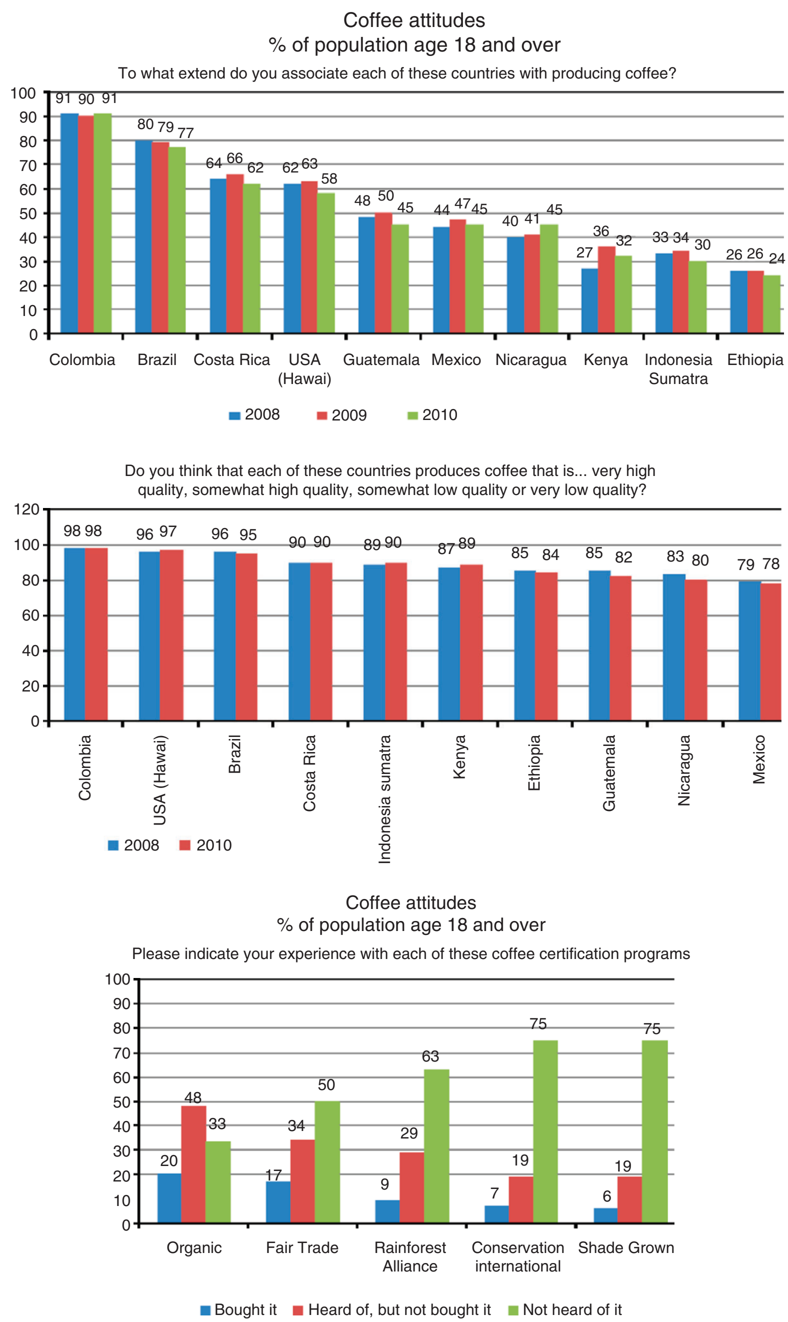


Figure 2.
Consumption patterns and attitudes toward coffee in the USA

Figure 2.

(continued)



Source: National Coffee Association USA (2011)

Figure 2.

to a reduction in consumption, which had declined from 3.1 cups a day in 1961 to 2 per day in 2009, the equivalent of 4.1 kg of coffee per capita/year. Notwithstanding the reduction in consumption, this figure still compared very favorably when compared to Latin American countries. For instance, annual consumption per capita was 3 kg in Costa Rica, 1.8 kg in Colombia, 1.2 kg in Mexico, 1.1 kg in Chile and 0.5 kg in Peru (International Coffee Organization, 2011).

The survey showed interesting trends such as a coffee market shifting to more in-home and gourmet coffee consumption. The latter has become mainstream, accounting for 40 percent of all cups consumed[3]. In 2010, more consumers drank a gourmet coffee beverage than traditional non-gourmet coffee. While the coffee market overall skews older, gourmet coffee has a more balanced age profile. As such, gourmet coffee may be critical to building coffee relevancy with the next generation of coffee consumers.

Certifications of various kinds were not fully understood by consumers. The leading certifications are organic, fair trade, Rainforest Alliance and shade grown. Overall, there is still an opportunity for all of the certifications to convey a clearer set of benefits.

The coffee industry

In 2009, the US coffee industry's annual revenue including grocery/retail and food service was $40 billion. The retail coffee market comprised three sectors: soluble or instant coffee, ready to drink (RTD), and whole bean or ground coffee. Combined market share for Kraft Foods, Sara Lee/DE, P&G and Nestlé was 45 percent (Burns, 2009). Starbucks' 30 percent share raised this figure to 75 percent (International Trade Centre, 2011). Currently, "specialty" refers both to whole-bean sales and to coffee beverages sold in coffee bars and cafés. As a category, roasted gourmet or specialty coffee[4] including coffee sold in retail/grocery and food service, had grown 15 percent a year since 1996, accounting for 34 percent of total sales or $13.65 billion in 2009 (Bolton, 2009).

Within the gourmet coffee segment, coffee sales from a single geographic region accounted for 30 percent of sales, flavored coffees for 25 percent, blends 20 percent, decaffeinated 15 percent and dark-roast 10 percent. Prices for gourmet coffee were several times higher than those for mass-marketed brands, and could vary widely in line with the reputation of specific coffee-growing regions. For instance, Colombian and Costa Rican coffees and/or those grown between 1,200 and 1,600 meters above sea level received a price premium, but this was not always the case. Some Hawaiian coffees grown below 600 meters above sea level enjoyed the same elevated prices as Costa Rican varieties. Most consumers could not distinguish between excellent and good coffee. Thus, much of the profit on premium coffees was due to marketing and branding efforts.

The number of specialty cafés had grown from 200 in 1989 to 10,000, 21,400 and 27,715 by 2000, 2005 and 2008, respectively, roughly one café per every 11,000 Americans (Bolton, 2009). Some 47 percent of all cafés belonged to chains such as Starbucks, The Coffee Beanery, and Java Centrale; the rest were mostly independent. Many cafés sold bags of ground or whole-bean coffee for home consumption. Starbucks offered special blends and single-origin coffee from such famous coffee-growing regions as Tarrazú (Costa Rica), Antigua (Guatemala), Kona (Hawaii), Java (Indonesia) and Manizales (Colombia).

Gourmet coffee sales at grocery stores amounted to $915 million (12 percent annual growth compared to 3 percent for non-gourmet). Gourmet coffee accounted for just

14.5 percent of coffee sales in supermarkets, but an increasing number of gourmet brands were available countrywide (Purcell, 2009). These included Starbucks; national brands such as Millstone Coffee (acquired by P&G in 1996) and Seattle's Best Coffee; regional brands such as Pure Roast Coffee, Green Mountain Coffee and Pan African Coffee; and foreign brands such as lllycaffe, Goroka and Coffee. Brands from coffee-producing countries were scarce, and almost none had national distribution, though the Colombian Coffee Grower's Federation (CCGF) used an aggressive advertising campaign to raise awareness of the high quality of its country's product. The CCGF created a value added brand, Juan Valdez, with presence on the web and in coffee shops in nine countries in Asia, Europe, North America and Latin America. It also provided information identifying the US brands that featured pure Colombian coffee, including Maxwell House, Colombian Supreme (Kraft), Café Sark's Gourmet Coffee (Nestlé), Folgers Colombian Supreme (P&G) and Sam's Club Great Value (Realty Foods).

In 1996, mail order coffee sales accounted for only $100 million but margins were 40 percent greater than for supermarkets. Over the last few years this segment has grown thanks to the internet. Participants included Kraft (whose brand, Gevalia, had been available by mail order since 1984), global gourmet chains like Starbucks, which offered its coffee by mail order through America Online, and many small US-based firms that set up web sites for information and mail order. Smaller roasters also participated in this segment. Armeno Coffee Roasters from Massachusetts featured coffee from Brazil, Costa Rica, Hawaii and Jamaica, as well as blends. It offered same-day roasting for any order of coffee and deliveries through its Armeno Express program. In 2009, total internet sales reached $199.5 million; Green Mountain Coffee Roasters Inc was the highest internet seller, ranking 96 among the top 500 Internet Retailers and ten in the Food/Drug category, with close to $170 million (Table VI).

There were also mail order operations that specialized in particular types of coffee. For example, Lucidcafé was a California-based company that offered Jamaican coffee via the internet. Adams Organic Coffees, based in San Francisco, offered only organic coffees from different countries in single-origin, blended, decaffeinated, and flavored varieties. Other online operations offered coffee from a specific coffee-producing region. The Maui Coffee Co. shipped its coffee directly from Hawaii and featured only two varieties, Kona and Maui. The Honduras Cigar & Coffee Company offered coffee from different regions of Honduras for direct delivery to the USA.

Confectionery

The US confectionery industry consisted of 1,600 companies with revenues exceeding $20 billion. Major actors included The Hershey Company, Mars, Nestlé, and Cadbury,

Companies	Web sales
Green Mountain Coffee	$166,392,192.00
Coffee For Less	$14,000,000.00
Peet's Coffee (2009 estimate)	$8,560,000.00
Grupo Britt N.V	$5,500,000.00
Godiva.com (2009 estimate)	$4,220,000.00
Starbuckstore.com (2009 estimate)	$1,140,000.00
CoffeeServ Inc	$14,000.00
Total	$199,826,162.00

Source: Grupo Britt N.V. (personal communications 2010-2011)

Table VI. Major mail-order companies, year 2009 acquired by Kraft in 2009. The industry comprised three major segments: companies processing cocoa into chocolate; companies using chocolate to manufacture candy; and companies making candy without chocolate (Hoover's, 2011a).

In 2009, among other channels, confectionery sales through supermarkets amounted to $4.9 billion (excluding Wal-Mart) and convenience stores $4.6 billion. Wal-Mart itself had sales of $4 billion, drugstores $2.8 billion, and other mass market outlets $1.4 billion (Figure 3). Chocolate candy sales accounted for more than 55 percent and sales had grown by 4 and 5 percent in the previous two years (Table VII). However, the National Confectionery Association (2011) indicated that chocolate consumption patterns were changing, with a discernible preference for dark and gourmet chocolates. Dark chocolate grew 17 percent between 2003 and 2004. Although growth slowed to only 9 percent in 2008 and 2009, it remained significantly higher than that of regular chocolates. Gourmet chocolate sales had been growing even faster, at an average of 25 percent, between 2007 and 2008, and consumption increased 32 percent. These trends had been driven by advertising campaigns on the benefits of chocolate for health, thanks to its antioxidant and aphrodisiac properties. Consequently, companies producing chocolate on a mass scale also entered this category[5].

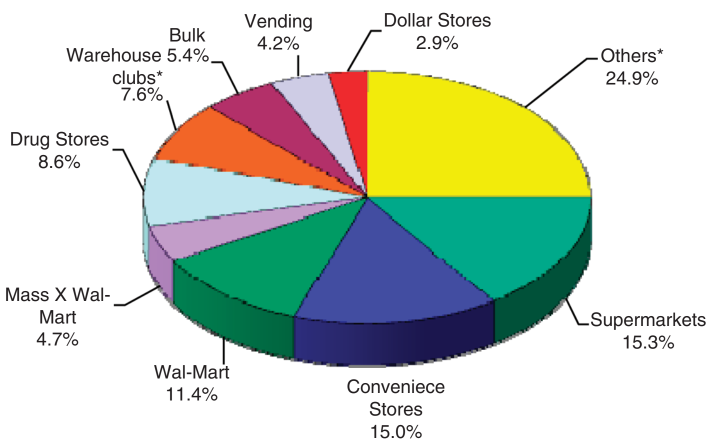


Figure 3. Market share by distribution channel in confectionery retailing, US 2009

Notes: *Others: Deptartmental stores, food service and ingredient sales, fundraising, give-aways, independent grocers, mail order/internet, military, specialty/candy stores, theaters and concessions
Source: National Confectioners Association (2008)

Table VII. US Confectionery manufacturers sales, 2008

Apparent consumption	Retail	Wholesale	% increase	2006 lbs	% increase
Total	$28.3 billion	$18.4 billon	+2.0	7.2 billion	−3.1
Confections chocolate candy	$16.0 billion	$10.4 billion	+1.5	3.4 billion	−3.7
Non-chocolate candy	$8.6 billion	$5.6 billion	−2.2	3.2 billion	−2.2
Gum	$2.7 billion	$1.9 billion	−20.7	0.4 billion	−6.6
Not specified	$0.8 billion	$0.5 billion	+3.1	0.2 billion	−1.0

Source: National Confectioners Association (2008)

Cookies

The cookie and cracker manufacturing industry comprised 300 companies with joint revenues close to $11 billion. Major companies included Nabisco (Kraft – Kellogg's snacks division), Campbell Soup's Pepperidge Farms, Snyder's-Lance, and Interbake. Around 16 percent of these companies accounted for over 90 percent of industry revenues and grew 2.4 percent from 2009 to 2010 (Hoover's, 2011b).

Manufacturing firms in the industry had to be willing to fight for shelf space and mind share among consumers. This involved heavy investment in trade promotion and consumer advertising. For example, Kraft spent on average 6.5 percent of its annual revenue on advertising. Crackers and cookies had to compete with a huge number of products purchased on an impulse basis, such as chips, seeds, energy bars, baked goods, fast food and home-baked products (Hoover's, 2011b). In 2008, cookies ranked eighth among products of choice in the food category and third in the snacks category, with sales worth $4 billion through channels such as grocery stores, drugstores, and mass merchandisers (excluding Wal-Mart) (National Confectioners Association, 2008).

Retail channels in the USA

Total revenues for the US food retail industry amounted to $859.1 billion in 2009 with an annual growth rate of 5.3 percent from 2005. The industry was consolidated, with large supermarket chains, hypermarkets and discount stores exercising more negotiating power *vis-à-vis* manufacturers than smaller specialty, luxury or organic food outlets. As a result they were able to offer lower prices to consumers (Euromonitor, 2010). In 2009, total sales for these groups accounted for 80.2 percent of the US food retail industry. In the same year convenience stores and gas stations generated revenues of $94.1 billion and food and drink specialty stores $17.2 billion (Datamonitor, 2010a).

In 2010, as consumers' discretionary income began to increase again following the financial crisis, they were beginning to visit specialty retailers once more to purchase niche food items such as chocolate confectionery and premium steaks, often as gifts. This sector, however, was threatened by improved special product sections in many US supermarket chains (Euromonitor, 2010). For example, Safeway stores featured a variety of specialty departments such as bakeries, delicatessens and florists. In addition, many stores offered Starbucks cafés and adjacent fuel centers (Datamonitor, 2010a).

Some specialty stores focussed exclusively on one segment. For example, Whole Foods Market operates a natural and organic food supermarket chain, with 20,500 SKUs on average, aimed at customers looking for natural or gourmet foods. The company owns and operates 299 retail stores. The USA is Whole Foods Market's largest geographical market, accounting for 97 percent of total revenue ($8.7 billion) in 2010, an 11.9 percent increase over 2009 (Plate 2; Datamonitor, 2010b).

Retailers are now using other alternatives to sell. MexGrocer streamlines the shopping process through its web site, mexgrocer.com, by eliminating the need to drive to multiple stores in search of authentic Mexican food. The company offers more than 3,000 specialty Mexican and Latin products. It has sold to over 15,000 cities across all 50 states, using Fedex, UPS and the US Postal Service to ensure fast and reliable delivery of orders (MexGrocer.com, 2009).

Many traditional producers of goods and services are working to transform their business processes by developing e-commerce (US Diplomatic Mission to Germany, 2008). Retail sales through e-commerce showed healthy double digit growth and according to the US Department of Commerce, retail sales of food and beverage through e-commerce amounted to $880 million or 0.2 percent of total retail sales, in 2008.

Plate 2.
Whole Foods Markets

(a)

(b)

Source: Whole Foods Market (n.d.)

Global airport stores

Passenger traffic, waiting time between flights, and air traveler lead times present a perfect combination for the offer of a variety of goods and services at airports. In addition to many small-scale stores competing to meet travelers' needs in the Americas, were two global companies, Dufry and Aldeasa.

Dufry has positioned itself at various airports, reaching 1.5 billion potential customers worldwide by 2010. It offered a wide variety of products through various kinds of shop catering, for example, to the "general traveler" with 50,000 SKUs, "news and convenience" and "branded boutiques" including Hermès, Armani and Lacoste and "specialized stores" such as "Colombian Emeralds International." Dufry's global revenues reached $2.6 billion in 2009 and $2.8 billion in 2010. The contribution of North, South and Central America and the Caribbean in 2010 was $765.2, $579.7 and $437.5 million, respectively (Plate 3; Dufry, 2011).

Aldeasa has airport stores such as boutiques, luxury goods outlets, duty-free and specialty stores. It also owns souvenir shops intended to spread cultural richness and the traditions of different countries, including original and typical goods such as books, decorations, food, T-shirts, gifts, key chains, stationery and other accessories. By 2010, Aldeasa operated in 49 airports, 20 countries and four continents, including the Americas, with a presence in Chile, Mexico, Panama, Peru, Colombia, Curaçao, Canada (Vancouver) and the USA (Atlanta and Orlando). 2010 sales reached $802.1 million (Hoover's, 2011c).

Britt Shops Director Adriana Echandi stated that the airport store business had grown rapidly over the previous 20 years as a result of concessions. For example, the Miami International Airport (MIA) had now an area of some 8,500 square meters, with capacity for more than 126 stores, with the goal to increase the number of stores to 250. This had led to establishing duty-free stores, gift shops, specialty shops, and food and beverage shops (Miami International Airport, 2011). The same was true at many other international airports in the continent. Chile's had four duty-free stores, 70 shops and 21 restaurants, and Peru's a commercial area of 10,422 square meters with 66 stores (Aeropuerto de Santiago, 2011; Lima Airport Partners, 2009). Finally, Adriana recalled that MIA had a traveler throughput of 16.4 million people per year and Lima and Santiago, nine million each, while the JSIA in Costa Rica handled about three million people.

Britt's decisions

In the Board's discussions about how to grow the business, one key question that had emerged and that generated extensive attention and discussion was how to position the Britt brand.

(a)

(b)

Plate 3.
Other Airport Stores

Sources: (a) Moodie Report (2008); (b) CHTJ-UGT (2013)

Grupo Britt encompassed several branded products such as Britt Coffee, Britt Chocolates, Britt Nuts, Britt Cookies and services such as the Britt Shops. It was noticeable that while learning about Britt brands, some consumers initially associated it with a coffee shop or café. So the first question was whether there was a common thread that tied all the different businesses and Britt brands together. There seemed to be a general belief inside the Grupo Britt management team that this common thread did exist, although there was no clearly articulated view as to what exactly it was. Vargas said: "The Britt brand(s) evoke a taste of the most authentic flavors of fine products from Latin American countries. Britt brings the people, the colors, the smells and flavors of these lands to its consumers. It celebrates the rich cultures of memorable places. Coffee and chocolate products create a memorable impact on the feelings of the traveler." Echandi said: "Britt stands for prestige, consistent quality, service, an innovative vision and gifts of excellence. It is what consumers saw in Costa Rica or Peru, or another country they visited. Britt was a local leader in that country and the consumer tried the product at his/her hotel, at a shop when taking some tour, like say whitewater rafting, or maybe s/he came to our Britt Coffee Tour. I consider the following to be the sentiments of the Britt brand: excellent quality that exceeds expectations and is always consistent; something different; charming and soothing; intelligent and innovative." Finally, Castro noted: "Britt is all about the joy of taking with me a high-end product that has the authentic flavors of the place I live in or have just visited. Keywords associated with the brand are authenticity, self-indulgence, gratifying memories (vacations), exotic flavors, and the perfect gift." Thus, as a first step, Vargas and his team had to agree on whether or not to develop a consistent international strategy for Britt and, if so, what the master brand should stand for if it were to capture the essence of the offering the different businesses in the group were already engaged in.

The second issue that Vargas and his team needed to address was whether to expand into the large, highly competitive, and difficult US market or whether to build on the gains that it had already made in Latin America. Since the company had first begun to diversify its activities with the Britt Coffee Tour, it had acquired considerable skill and capabilities.

Should the Britt brand expand into the USA? If so, how would this decision interact with the brand positioning that was also under discussion? Which aspects of its business, if any, should Britt expand in the USA and how? Ultimately these were decisions that Vargas needed to make. He was faced with a very significant decision as, if all went well, it could totally change the firm's direction, shifting it to the next level. But if it did not, it could fatally damage the Group's future.

Notes

1. There are three categories of coffee: strictly hard bean (SHB), grown under optimal conditions between 1,200 and 1,600 meters above sea level; good hard bean (GHB), grown between 1,000 and 1,200 meters, and hard bean (HB), grown below 1,000 meters. SHB is the top-quality, uniform in color and contain fewer impurities. Britt only roasts and packages SHB.
2. Pay per click is when a company pays another company each time someone is looking for their product, sees a banner ad and clicks on it. Pay per action is when the person searching completes a transaction; in this case the company has to pay more than in the pay per click option. Google and others usually offer both systems.
3. Gourmet coffee beverages comprised of traditional coffee (black, drunk hot or cold), frozen blended coffee, and espresso-based beverages (including cappuccino, espresso, latte, café mocha, and macchiato).
4. Gourmet and specialty coffee are typically used as synonyms. This practice is followed in this case study.
5. Chocolates with exotic flavors (citrus, spices, salty, and fruit flavored) and chocolates highlighting the place of origin are packaged and sold as gourmet chocolate.

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