# MARKETING MANAGEMENT

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# EXECUTIVE SUMMARY

Team Caribou, the agency formed by the University of North Florida‟s fall media planning class, has created a communications plan to promote as well as increase sales for Caribou Coffee. This agency will focus primarily on reinforcing the brands presence in the Midwest via advertising in Midwest magazines and on television programming that focuses on this market.

The agency‟s secondary focus will be to expand the presence of the brand on a national level via advertising on national television programming as well as a minor campaign in a national magazine. Team Caribou has developed a communication campaign that targets adults ages 18-35 of the student and working classes with an annual household income of at least $30,000 because this demographic group is most likely to drink coffee and relies more heavily on caffeine than other age groups.

Based on our research of sales in 2011 for Caribou Coffee our marketing objective is to increase consolidated sales by 15% and to increase coffee house sales by 5%. In order to achieve these results, the agency will use a budget of $50,280,000 to reach 60% of the target audience and achieve a frequency of 2. A pulsing schedule will be used to meet the above stated goals. The agency chose this type of scheduling in order to balance need for additional advertising during the winter months, when coffee sales are at a premium, with the need to advertising throughout the year to expand brand recognition.

The campaign will use advertising techniques to create a stronger brand image, increase sales, along with gaining new customer awareness. Caribou Coffee campaign will span the time frame of one year, with specific emphasis on winter and holiday themes, to increase demand for hot beverages and warm breakfasts during the winter months.

# TABLE OF CONTENTS

# BRAND OVERVIEW

The current trends in the industry deal mainly with the atmosphere within the stores that customers visit. Places such as Starbucks and Caribou Coffee offer free Wi-Fi in order to provide and environment that is conducive to relaxation while simultaneously providing a connection to the workplace. Caribou prides itself on the aspects it believes Starbucks lacks, such as a focus on customer service, a higher quality product, and a commitment to sustainable agriculture. Currently, Caribou is going through a re-branding process aimed at appealing to “a more contemporary, less regional” customer base (O’Leary, 2010). The company is seeking to “elevate its positioning in the marketplace with a new look and greater focus on the customer experience” (Brandau, 2010).

The campaign emphasizes the service that consumers can expect to receive when they visit a Caribou Coffee location because this aspect of the coffeehouse experience has been part of Caribou from the beginning. By continuing to develop its rustic, “ski-lodge” theme and focusing on exemplary service and a high-end consumer experience, the product will be highlighted in the minds of consumers. Secondarily, the campaign will focus on products that are available for purchase from Caribou’s online store. These partnerships have provided incredible exposure for Caribou Coffee in the recent years and represents to the agency that a continued presence in sports media is of upmost importance regarding the advertising of this brand. In addition to traditional advertising techniques, Caribou Coffee has employed the use of several alternative advertising strategies such as a presence on the sides of city buses and light rail trains to help reach the goal of widening their current market.

Caribou Coffee was founded in 1992 by newlywed-couple, John and Kimberly Puckett. Inspired to start the business while on a trip to Alaska, the Puckett’s opened their first coffeehouse in Edina—a suburb of Minneapolis, Minnesota. They successfully opened multiple Caribou locations in the Twin Cities area and soon expanded to other markets in the Midwest. In 1996, the fast-growing franchise got a makeover. Originally employing a more urban look, Caribou changed its brand image and the interior of its coffee shops to reflect a more rustic, “ski-lodge” theme. “The change differentiated Caribou from Starbucks and brought the concept more in line with the experience that originally inspired Kim and John Puckett’s enterprise” (Caribou Coffee, 2009). In 2008, Caribou was “the nation’s second largest U.S. specialty coffee company with 490 coffee houses and more than 6,600 employees” (Specialty Coffee, 2009).

# COMPETITION OVERVIEW

Important direct and indirect competitors o Caribou Coffee's competitors include Starbucks, McDonald's, and Dunkin Donuts. Starbucks and McDonald's represent Caribou's direct competitors, and Dunkin Donuts, the indirect competitor.

- For each competitor, focus should be on factors such as sales, market share, growth, key benefits, positioning, advertising and promotion budget, promotion program mix, message and media strategies, and overall assessment of strengths and weaknesses. Who are the primary and secondary competitors? What images do they convey in their advertising and promotional materials and on their website (if applicable) versus the image your product/service conveys? What do they promote as their distinctive competencies? Is there a difference between consumers' perception of the competition and the way the competition is promoted (their positioning strategy)? From your perspective and the objective information, you have evaluated, what are the actual competitive advantages of your product/service and that of the competition?

The primary competitor of Caribou Coffee is Starbucks. With a logo as iconic as its name—so iconic that the newest logo features very little actual text—Starbucks claims to offer a selection of the highest quality Arabica coffee beans and continues to raise the bar of coffee standards throughout the industry.

Starbucks offers a variety of specialty drinks as well as snacks and coffee related accessories and equipment. Many of the items offered in the retail stores are: Freshly brewed coffees, a variety of Italian-style espresso drinks, Cold blended beverages (Frappuccino), a selection of premium teas, Packaged roasted whole bean coffee, Fresh pastries and other food items.

Despite Starbucks popularity, Wall Street believes that the company is in quite the predicament. This is since McDonald's is more readily available (has more locations nationally and around the globe) and offers premium coffee at a lower price than Starbucks—even specialty drinks.

However, the value of Starbucks' stocks is based almost entirely on same-store growth. This is Starbucks‟ saving grace when it comes to earning money for its investors because it allows Starbucks to turn a profit without having to directly compete with the vast number of locations McDonald's has. Regardless, Starbucks‟ goal is to reach 40,000 locations worldwide.

Caribou Coffee‟s second leading competitor is McDonald‟s. The emerging McDonald‟s coffee beverage line includes lattes, cappuccinos and iced brews in 9,000 US restaurants. A sample of beverage options at various McDonald‟s locations includes Freshly brewed coffees, Iced Coffees, Specialty Drinks-Cappuccinos, lattes etc.

A selection of flavors to be blended with any coffee beverage. The emerging line is surprisingly considered to have a high quality taste by consumers. Bloomberg reports that in March, a Consumer Reports taste test of basic black coffee found McDonald's stronger blend beat Starbucks, Burger King Holdings Inc. (NYSE: BKC) and Dunkin' Donuts Inc. Caribou's indirect competitor is represented by Dunkin Donuts because although Dunkin Donuts does serve coffee, the main focus of the company is the food, especially breakfast items.

However, Dunkin Donuts still controls a small portion of the coffee market and warrants attention. Dunkin Donuts tends to focus on traditional coffee over specialty drinks. This distinction between Dunkin Donuts and Caribou Coffee or Starbucks is what makes Dunkin Donuts an indirect competitor. Its logo is not as well-known as those of Starbucks and Caribou Coffee but still holds strong within the market.

# TARGET MARGET

Caribou coffee Incl commonly known as CBOU.O is a company specializing in retail of teas, coffee bakery goods and other related products. Since it inception in 1992, the firm operates in various reportable divisions which include: commercial, retail and franchise businesses. Retail segment comprise of about 400 of the total coffee establishment and focuses on the local market. These key stores are based in Minnesota and over 20 other store in major states where CBOU.O operates.

Commercial segment focuses on mass merchandisers while the franchise business which comprises of about 19% of the total coffee houses **targets the international market**. Caribou Incl operates in international and local markets as well with about 510 coffeehouses (Perry 2003, p. 46). Additionally, the firm supplies its products to diverse clientele groups such as **grocery stores, hotels, airlines, mass merchandisers, entertainment venues, offices and colleges among other clients**. Caribou management main goal is directed towards providing high quality coffee blends and other related products to its clients.

Key to their attractive strategy, CBOU.O has well designed outlets which resemble ski lodges and even Alaskan cabins, which offer the firm's a range of coffee blends, or even specialty teas, coffee drinks and baked goods. In order to expand on its distribution chain CBOU.O sells both brewing supplies and whole bean coffee (Hall 2005, p. 76). In addition the firm has over 100 franchised outlets which are mostly founded in the greater Middle East part as well as South Korea. As per 2008 fiscal report, 60% of the Caribou Coffee firm is owned by Arcapita, a Bahrain-based investment faction.

# SEGMENTATION – Demographic, Behavior, Psychographic


It is generally accepted that market segmentation strategies that are solely based on demographic data are not enough in themselves to increase market share. The important point is to be able to extrapolate from the data that which could be “value-based segments”. This is made possible through the phenomenon of actionable segmentation‟; a concept which deploys sophisticated targeting techniques aimed at capturing valuable intelligence on the percentage of customers in various geographic locations who place quality and brand loyalty above price when selecting products (Forsyth et al, 1999).Caribou has demonstrated an awareness of this concept through its statistical modelling work by carefully calibrating new store locations with information relating to the local population’s average earnings, income and education levels.

In doing so, Caribou is following the logic of **target-costing** where tomorrow’s market environment is being anticipated through carefully planned segmentation of those markets and allocating adequate resources to meet customer needs accordingly. It is critical in a service industry that firms can respond to an ever-changing environment, therefore revenue streams will only show a net increase if firms keep overhead costs down (Cooper et al, 1996). Effective segmentation helps to bridge this gap. Also, Caribou places a high priority on inculcating staff with an ability to be both sensitive and responsive to customer wants and desires, which suggests that the firm has a good grasp of the subtleties and nuances associated with **psychographic segmentation** (Schoenwald, 2001). This is exemplified by the *relaxing store architecture and design features* which resemble idyllic mountain lodges. As stated earlier, management also needs to give staff the freedom to pursue innovative interactions with customers that are aimed at gaining a more refined understanding of customers‟ latent desires. This corresponds with the proposition that the acid test for successful segmentation is to demonstrate that the derived segments respond differently to variations in the marketing mix” (Neal: 15). By allowing staff „in the field‟ enough latitude to exercise their creativity Caribou will prove that its entrepreneurial credentials are not simply window dressing.

# SWOT (Strengths, Weaknesses, Opportunities and Threats

**A. Historical Strengths** - Caribou Coffee has become the second largest gourmet coffee provider in the United States by targeting a niche customer base and providing them with "a more refined customer „experience" from the more standard versions offered by Starbucks." (Reid)

**B. Historical Weaknesses -** Caribou Coffee has focused on a regional customer base, which limits its growth as a company because Caribou Coffee is only exposing itself to a very narrow target audience. Until recently, the company has focused their branding efforts in the Midwest and Southeast. To illustrate the narrow geographical reach of Caribou Coffee we can compare their reach to that of their primary competitor, Starbucks. Below, we can see that Caribou Coffee does not even reach half the geographical area of Starbucks as depicted in Case Study: Caribou Coffee v. Starbucks. (http://sites.google.com/site/seoanalysisnow/case-study-caribou-coffee-vs-starbucks) (The above image illustrates the difference in geographical density of online visitors between Caribou Coffee [on left] to Starbucks [on right] both globally and in the US)

**C. Identified Strengths -** Caribou Coffee's focus on customer service, a higher quality product and sustainable agriculture set it apart from other specialty coffee shops. To repeat, it has cornered a niche of the market that desires a more robust experience than offered by the standard Starbucks.

**D. Identified Weaknesses** - Although Caribou Coffee's ability to capture a niche market is in some ways a strength, Starbucks" projected growth as a global brand may threaten brands that rely on capturing a niche market. In this way, relying on a niche can be viewed as a weakness (Reid).

**E. Environmental opportunities and threats**

> **1. Risk of new entry by potential** competitors - The specialty coffee industry has become a billion-dollar industry. As mentioned in the situational analysis, Starbucks has tripled in size from 2000 to 2005. In addition, mom-and-pop coffee shops have expanded by 40% in the same time period. As such, the risk of entry by potential competitors is great; however, due to the greatness of the lead industry competitors it would take a good deal of time for any new entry into the market to catch-up. Therefore, the risk they represent for Caribou Coffee is low.

**2. Degree of rivalry among established companies** - Starbucks and McDonalds are Caribou Coffee‟s lead competitors and the degree of rivalry between these „big three‟ is heating up. Caribou Coffee is currently aiming to broaden its customer base which involves taking some of the market share from their top two competitors. As such, the degree of rivalry is hot, and getting hotter.

**3. Bargaining power of buyers** - The bargaining power of buyers refers to the choices the consumer conforms to when making a purchase. Their decisions impact the market if enough of the target audience decides to purchase or not purchase the same product. Each brand only has as much power as the consumer decides to allow it to have. For Caribou Coffee this means that as the company attempts to expand its geographical reach, it will only succeed as far as the consumer base is willing to substitute Caribou Coffee for Starbucks and McDonalds.

**4. Bargaining power of suppliers** - The bargaining power of the suppliers has a direct effect on what consumers purchase. If Caribou Coffee can offer a product equal or better in quality as Starbucks and McDonalds at a lower cost than suppliers will choose to sell Caribou Coffee over that of their competitors. This would cause Caribou Coffee to be more available to the consumer. The bargaining power of the supplier is one way in which Caribou Coffee can indirectly affect the bargaining power of the consumer.

**5. Threat of substitute products** - Substitute products for coffee include tea and energy drinks. While the threat of tea is minimal, the threat of the rising energy drink trend is a concern for specialty coffee shops. The energy drink sector has experienced phenomenal growth since the mid- 1990‟s and shows no sign of slowing down. In 2008 alone, the industry grew 10.7% at home in the US and 27.8% internationally. (Hanson Natural)

**F. Competitive position** - Overall, Caribou Coffee is in a moderately strong competitive position. There is definitely the potential for Caribou Coffee to grow geographically by expanding their target audience and brand recognition; however, Caribou Coffee has their work cut out for them if they plan on catching the specialty coffee giant, Starbucks. If Caribou Coffee plans to compete more directly with Starbucks, its business plan will need to be modified to include a broader target audience. The weaknesses of targeting a niche will need to be addressed while keeping the brand in line with its already established.

# 7. Market Research carried out

### 7.1 Product – BCG matrix and packaging plans

The BCG matrix is a strategic management tool that was created by the Boston Consulting Group that allows a company in analyzing the position of a strategic business unit and the potential it has to offer. It classifies business portfolio into four categories based on industry attractiveness (growth rate of that industry) and competitive position (relative market share).

**Stars.** Stars operate in high growth industries and maintain high market share. Stars are both cash generators and cash users. They are the primary units in which the company should invest its money, because stars are expected to become cash cows and generate positive cash flows. Yet, not all stars become cash flows. This is especially true in rapidly changing industries, where new innovative products can soon be outcompeted by new technological advancements, so a star instead of becoming a cash cow, becomes a dog. Strategic choices: Vertical integration, horizontal integration, market penetration, market development, product development

**Cash cows.** Cash cows are the most profitable brands and should be "milked" to provide as much cash as possible. The cash gained from "cows" should be invested into stars to support their further growth. According to growth-share matrix, corporates should not invest into cash cows to induce growth but only to support them so they can maintain their current market share. Again, this is not always the truth. Cash cows are usually large corporations or SBUs that are capable of innovating new products or processes, which may become new stars. If there would be no support for cash cows, they would not be capable of such innovations. Strategic choices: Product development, diversification, divestiture, retrenchment

**Dogs.** Dogs hold low market share compared to competitors and operate in a slowly growing market. In general, they are not worth investing in because they generate low or negative cash returns. But this is not always the truth. Some dogs may be profitable for long period of time, they may provide synergies for other brands or SBUs or simple act as a defense to counter competitors moves. Therefore, it is always important to perform deeper analysis of each brand or SBU to make sure they are not worth investing in or have to be divested. Strategic choices: Retrenchment, divestiture, liquidation

**Question marks.** Question marks are the brands that require much closer consideration. They hold low market share in fast growing markets consuming large amount of cash and incurring losses. It has potential to gain market share and become a star, which would later become cash cow. Question marks do not always succeed and even after large amount of investments they struggle to gain market share and eventually become dogs. Therefore, they require very close consideration to decide if they are worth investing in or not. Strategic choices: Market penetration, market development, product development, divestiture

Although BCG analysis has lost its importance due to many limitations, it can still be a useful tool if performed by following these steps:

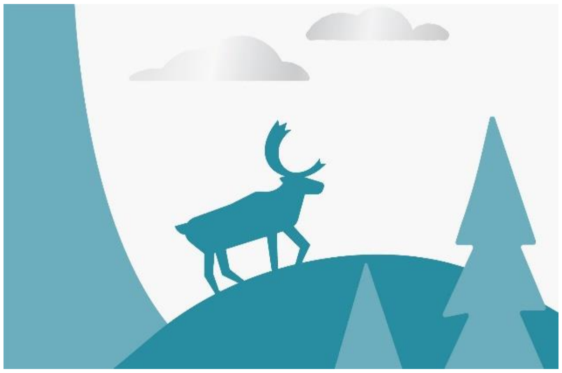
- **Choose the unit** - BCG matrix can be used to analyze SBUs, separate brands, products or a firm as a unit itself. Which unit will be chosen will have an impact on the whole analysis? Therefore, it is essential to define the unit for which you'll do the analysis.

- **Define the market** - Defining the market is one of the most important things to do in this analysis. This is because incorrectly defined market may lead to poor classification. For example, if we would do the analysis for the Daimler's Mercedes-Benz car brand in the passenger vehicle market it would end up as a dog (it holds less than 20% relative market share), but it would be a cash cow in the luxury car market. It is important to clearly define the market to better understand firm's portfolio position.

- **Calculate relative market share** - Relative market share can be calculated in terms of revenues or market share. It is calculated by dividing your own brand's market share (revenues) by the market share (or revenues) of your largest competitor in that industry. For example, if your competitor's market share in refrigerator's industry was 25% and your firm's brand market share was 10% in the same year, your relative market share would be only 0.4. Relative market share is given on x-axis. It's top left corner is set at 1, midpoint at 0.5 and top right corner at 0 (see the example below for this).

**Packaging plans/system.** The packaging/label system architecture of Caribou Coffee brings signature, flavored and single origin coffees into one system, differentiating varietals with color and pattern. Designations for ground, whole bean, decaffeinated and caffeinated products each have a place in the structure. Additional **iconography** is used on the package to convey coffee credentials and to make functional information like brewing instructions easier to understand. **Copy** is used both to convey brand personality and function. The whole system provides a toolkit of brand language designed to extend the brand across a growing portfolio of products.

Each addition draws on a robust toolkit of brand language, adding category cues and other essential information to work hard on behalf of the brand, and each product. Single-serve, ready-to-drink cold brew cans and growlers accentuate the brand icon with a bold personality. Other line extensions are strongly branded and add continuity to the brand at the point of sale.


### 7.2 Place – Choice of retail strategy

Caribou Coffee always invest in a *welcoming and eye-catching storefront* which is the easiest, most manageable way to attract new customers by ensuring their coffee shop looks appealing to the people passing by. The company has been placing a lot of their branches to places like ***business centers, hotels, food parks and/or to any busy places***. Caribou just not picked the best places, but they also make sure that their doors are visible and attractive for everyone. Many locals' entrances are dark, not very visible, hidden from the public, in some cases it is not clear where the entrance is located and, worst of all, it is not immediately clear what is being offered and the advantage to customers.

### 7.3 Price – penetrative or skimming or competitive

Caribou has used **Penetration pricing** where the **prices** of their products are initially set low to rapidly reach a wide fraction of the market and initiate word of mouth. And it has been proven that this **strategy** works on the expectation that customers will switch to the new brand because of the lower **price**.

They have also taken into consideration to set the price of the same or similar products to other competitors. One of the focuses was on competition-driven prices rather than production costs and overheads.

They have established the right price of the product in the competitive pricing method by doing a market analysis. They've had a robust data collection mechanism to keep track of their competitors' prices.

Competitive pricing options taken:

**Price below the Competition** – which was one of their excellent strategies to grab the customer's attention and to increase their sales.

**Price Matching** – Pricing at the Same Level – Caribou ensures that they have a better offer. With a competitive pricing strategy, they were able to identify the best prices that are logically within the market context in which operates and improve their profit margins.

### 7.4 Promotion – pull or push strategy including choice of medium – digital or traditional

Promotion is an important part of any marketing strategy. You can have the best product or service out there, but unless you promote it successfully, no one will know about it. There are three basic types of promotional strategies – a push strategy, a pull strategy or a combination of the two. In general, a push strategy is sales oriented, a pull strategy is marketing-oriented and a push-pull strategy is a combination of the two.

Caribou has started doing some kind of push promotions where they worked on creating/providing customer demands for their products and/or services through direct selling or direct approaches to customers.

But as we all know, advertising through social media has grown to be a favorite marketing option for many business start-ups and organizations globally where it can help a company to reduce marketing costs and will improve and maintain brand loyalty/recognition.

And this is the reason why Caribou has focused on doing pull promotions strategy where they have advertised their products, sales promotions offering discounts or two-for-one offers in Facebook, Instagram, Snapchat, Twitter and etc.

# CONCLUSIONS/RECOMMENDATIONS

Caribou must maintain its core competence values that made it successful: product quality and unique customer service. Being a “runner-up” to the industry giant Starbucks is conventional, but satisfaction with this position is a big “No “and the goal to accomplish the top rank should be persuaded in the culture and ambitions of all employees, top management, as well as business partners and shareholders.

**Recommendation:** New Markets penetration must be the focal attention of Caribou coffee’s long-term tactic to increase its market shares among this ever-growing specialty coffee industry. And With the emergence of new players, Caribou must commit and further develop its differentiation strategy which pursues to offer product diversification and premium services and surpass competitors.

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