



**Global MBA**

**December 2010**

Global Environment of Business

Professor: Mauricio Gonzalez



**CAFÉ DE COLOMBIA**

RohitDeshpandé

***GBR@T Group***

Rafael Arango

Hideo Taniguchi

John Johnson

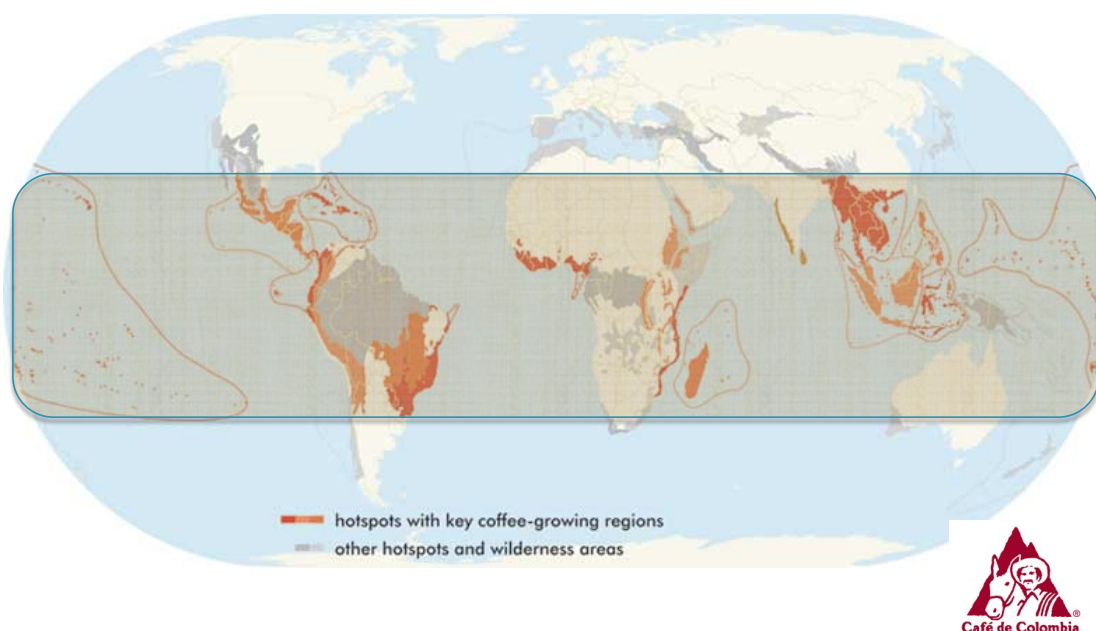
Rosa Tamayo

Vladimir Petit

## Introduction

Café de Colombia is not just a specific brand but a quality standard to different Colombian coffee brands. It was created to differentiate the made-in-Colombia coffee from the other countries' coffee in times when most international roasters used to mix them up discretionally. Then, Colombian growers and the *Federación Nacional de Cafeteros de Colombia* launched the hundred-per-cent-pure Colombian high quality coffee program and they began by establishing a differentiation among brands, including the country of origin. The corresponding logo was designed and suddenly *Café de Colombia* as quality standard was released.

## Introduction of coffee to Colombia



It is believed that coffee was first discovered by Ethiopians and then by people from Egypt and Yemen. The Coffee was first roasted and brewed in Arabia and it is a product from the equatorial region of the world.

The first introduction of coffee beans into Colombia appeared to be by Jesuits (written testimony that supports this fact comes from the priest, José Gumilla – 1730 - and the Archbishop – Viceroy Caballero y Góngora - 1787-) from the east, probably coming from Guyana through Venezuela (1730), and later reached the Andean region where it found the perfect temperature and water conditions. By 1835 the first commercial harvest of coffee, consisting of 2,560 sacks, was produced. By 1850 the crop was spread throughout the whole area.

Over one half of Colombian Municipalities include coffee in their agricultural activities and it remained as Colombia's most important agricultural activity. That is the reason why the coffee sector represents up to 1/3 of total rural employment.

## **Background on Colombia**

The Republic of Colombia is the second most populated country in South America (45 million inhabitants) and it has the fourth largest Spanish-speaking population in the world after Mexico, the United States, and Spain.

Colombia has a long tradition of constitutional government, the prevalence of the rule of law and the "checks and balances" system. The Liberal and Conservative parties, founded in 1848 and 1849, respectively, are two of the oldest surviving political parties in the Americas.

By 1959, 77% of *Café de Colombia* exports were to the US but only 4% of the consumers know the beans' country of origin.

A few words on a key coffee player:

### **Federación Nacional de Cafeteros de Colombia, FNC**

The *Federación Nacional de Cafeteros*, FNC, was created as a cooperative in 1927 by a group of coffee growers. It is technically a private institution to benefit the growers and to preserve their benefits. The election of the chief Executive Officer follows a process that starts with the grower and ends with the appointment of the executive committee; thus, it is a second degree election process.

The FNC is composed of the most influential Colombian coffee producers and coffee used to be considered as an important commodity worldwide.

The FNC is present throughout the whole coffee production cycle. Its main activities focus on education, technical and logistic support and quality control. It also fixes the minimum selling price, playing the cartel role. An important achievement has been to keep a historic premium of nearly \$0,10 /lb for its coffee over coffees from other countries. Due to that margin many important social advances could be achieved.

## **Coffee Business Model**

Among many types, the arabica coffee plant became the most popular and Colombia exported only mild washed arabica beans. It takes up to 4 years to produce this kind of coffee. Let's take a quick look at the cycle.

Once the coffee fruit becomes red, it is handpicked by farmers and gets depulped at the depulping station. So, the beans are exposed to the sun in order to get them dry (it takes from 7 to 15 days). As soon as the beans are dry, they are placed into sacks, and are ready to be exported. The big roasting companies worldwide mix coffee beans from many countries in order to reduce costs. In 1960, the FNC decided to introduce a variation: Colombian coffee should be known as different and a differentiation process was initiated. *Café de Colombia*, as a quality standard, was suddenly accepted by most Colombian growers because the FNC implemented a very clever strategy: friendly persuasion<sup>1</sup>. It was aimed at not only Colombian producers but at American consumers too.

---

<sup>1</sup> The principle of association, according to Cialdini (1996) attaches virtues, qualities and skills to an idea in order to reinforce the tendency to acquire the product that embodies such an idea. When collateral qualities are tied up to the idea, it becomes as indisputable as the product itself. It is backed up by a sort of over natural response in the consumer's mind. By the way, FNC applied this principle in different ways: a. To the consumers, attaching the idea of tradition, effort and natural work to the commodity; b. To the growers, enthusiastically announcing that the more they could differentiate the product, the more the

The fact that big roasters used to combine different beans with no differentiation triggered the need for action by the *Federación Nacional de Cafeteros*. Then the creation of *Café de Colombia*, *100% Café de Colombia*, first and *Juan Valdez*, later, were clear responses to that need. At the beginning of the campaign, *100% Café de Colombia* acted as an *appellation controlee* reinforced by the motto: “the finest coffee in the world” and when the FNC launched the program, in 1982, consumers were told that finding *100% Café de Colombia* was as simple as looking for the *Juan Valdez* logo on the package. Shortly after, *Juan Valdez*, as an icon with clear association with the best traditional values, was launched. The impact was immediate. The statistics showed that *Juan Valdez* was a clear success since it first appeared and an impressive goal was achieved: the hundred-percent pure high quality Colombian coffee standard turned into one of the world’s best known brands. Surveys revealed that the logo reached a remarkable 85% recognition and *Juan Valdez* became a very popular character.

## US Coffee market

By 1980s, coffee had been replaced as the leading beverage in the US due to health concerns. It also moved to in-house consumption rather than in-restaurant consumption. The fall in the consumption especially affected the young people’s sector most, but *Café de Colombia* remained as a well-respected brand among the older generation. By the 1990s, the taste for gourmet coffee suddenly rose and specialty stores like Starbucks decided to take over that niche.

## Marketing Campaign

*Juan Valdez* was an icon that integrated both tradition and quality. The association with those values is something that cannot be resisted or easily averted. The character was created in 1960 by DBB, which is the same agency that still runs the campaign today. The first person who played the role of *Juan Valdez* was a Cuban actor named José F. Duval. Shortly after, the most famous *Juan Valdez* happened to be a real Colombian grower from Antioquia, Carlos Sanchez. The newest one is Carlos Castañeda from Antioquia too.

The campaign had three main purposes: to educate people, to promote the quality of coffee and to “enjoy life” - *Saborea tu vida* - aimed at young people.

There were two important ongoing marketing strategies aimed at the US and the European markets. European consumers were more aware of the quality of coffee than most Americans. That was the reason why the FNC focused its marketing on incentives for roasters in the case of the US. The outcome was a terrific success and by 1980<sup>2</sup>, 74 brands carried the *Juan Valdez* logo on their packages.

The most important achievement of the marketing campaign was the intangible assets attached to the brand: the character of *Juan Valdez*, the *100% Café de Colombia* logo and the *appellation controlee* differentiator. These assets had a collateral effect: the well-differentiated Colombian coffee had a price premium over other coffees<sup>3</sup>.

---

demand for *Café de Colombia* would increase; and c. To retailers, giving them a sense of pride in a way that they were not just selling a good product but the best one available.

<sup>2</sup> Levitt (1983) states that “global thinking is, in fact, the globalization of markets wherever these markets happen to be”.

<sup>3</sup> Holt, Quelch and Taylor (2004) warned most global brands that multinationals should not get rid of their national heritage when it has become an asset.

Let's take a look at the advertisement campaign:

## TV Advertisement Campaign

[First Juan Valdez Commercial](#)

[Canadian Commercial 1984](#)

[Juan Valdez Commercial 1985](#)

[The richest coffee in the world](#)

[Boat Commercial](#)

[Supermarket Commercial](#)

[Train Commercial](#)

[Beach Commercial](#)

Campaign focus : Education.  
Target: Consumers and Trade  
Positioning: "Richest Coffee in the World"

Campaign focus : Very positive light  
Target: Consumers and convince roasters  
To adopt Café de Colombia differentiation  
Humorous and Sophisticated Settings

Target: Young Consumers



## Juan Valdez became part of the culture...



Brand	Logo Association
Quaker Oats	94
CBS	90
Volkswagen	90
100% Café de Colombia	85
Nike	84
Michelin	73
Prudential	72
United Dairy Association	68
AT&T	62
Woolmark	40
Starbucks	33
Continental	32

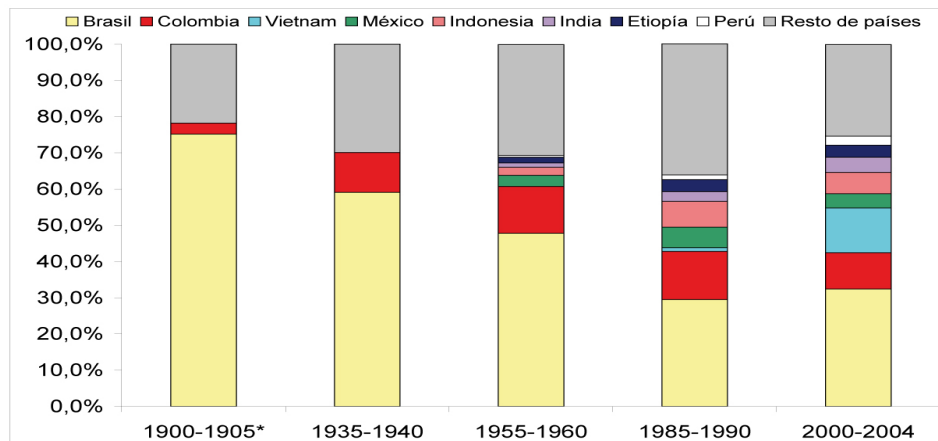
Fuente: 2000 Logo Study – Roper Starch Worldwide.

The differentiation based on quality was exactly the goal. That was a huge success. In the words of Holt, Quelch and Taylor (2004)<sup>4</sup> "...Consumers Worldwide evaluate global brands on the following dimensions: Quality signal, Association with quality made a difference and Global myth....". The three dimensions were fulfilled by the campaign by the time of the case, year 2000.

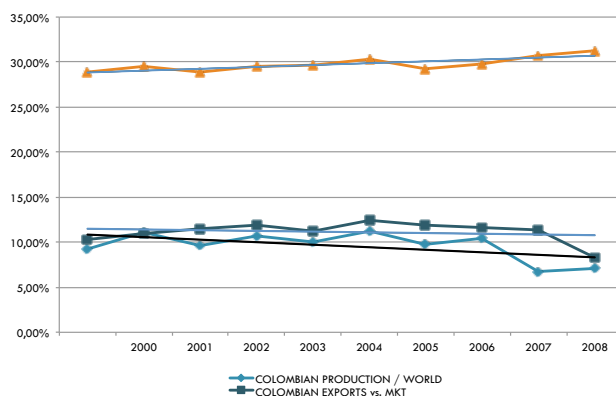
<sup>4</sup> Op. Cit

## Worldwide production of coffee

### Worldwide Production of Coffee



### US consumption, Colombian Export and Production



As we can notice, *Café de Colombia* started to achieve a special place in worldwide production. However, from 2000 to the present, the FNC faces a big challenge of falling production and exports.

### The challenges.... (by mid-December 2000, the time of the case)

In mid December 2000, right in the middle of a fall in coffee prices (35% between 1995 and 2000 reaching about \$0.80/lb to produce a pound of high quality coffee in Colombia while the global coffee process was expected to be just \$0,80/lb by the end of 2001 and many other countries, surprisingly, were investing to increase their coffee production levels) the **Main question was:**

- *How could “a continuing advertisement cut in the US affect Café de Colombia’s Market share and Price Premium”?*

**And other questions were:**

- How to draw young consumers to drink coffee?
- How to capture the trend in US on new consumer habits?

(From stores to homes)

### **GBR@T’s Recommendations**

#### **1. Continue to invest in differentiating coffee where distributors share part of the costs of the marketing campaign.**

Due to the said constraints, this comes up as a very innovative way to continue on track. Big roaster companies are to keep the logo but, at the same time, to share the advertisement expenses. Anyway, the *100% Colombian appellation controlee* should have a cost when it has become an asset.

#### **2. Create a direct channel to consumers in order to take advantage of the brand awareness and change young people’s consumer habits.**

Well-designed social areas should have the product and a chain should be established for the product. In addition, stylish automatic steaming-machines with the corresponding mix would make the immediate consumption of Colombian coffee available at home.

**At Stores...**





At Home...



**3. The release of a new marketing campaign focused on recent scientific findings: natural beverage, healthy beverage.**

Despite the traditional belief that coffee was not good for health, recent scientific findings support just the opposite. Thus, public awareness of that fact is immediately raised.

**Harvard Health Publications**  
**HARVARD MEDICAL SCHOOL**  
*Trusted advice for a healthier life*

[MY ACCOUNT](#) | [MY LIBRARY](#) | [DICTIONARY](#) | [HELP](#)  
[Customer Sign In](#)  
Shopping Cart (0 items for \$0.00)

[Home](#) | [Health Newsletters](#) | [Special Health Reports](#) | [Health Books](#) | [Browse By Topic](#) | [Blog](#) | Text size: [A](#) [A](#) [A](#)

**News from Harvard Health**

- [The health benefits of strong relationships](#)
- [Research shows older Americans are sexually active](#)
- [Aspirin and your heart: Many questions, some answers](#)
- [What can angioplasty do for you?](#)
- [When hypomania turns harmful](#)
- [Don't fool yourself: "Social" smoking is still hazardous to your health](#)
- [Tips for reducing salt in your diet](#)
- [A sampling of highest-rated health apps for your smartphone](#)

## Coffee Health Risks: For the moderate drinker, coffee is safe says Harvard Women's Health Watch

**AUGUST 2004**

Despite 20 years of reassuring research, many people still avoid caffeinated coffee because they worry about its health effects. However, current research reveals that in moderation—a few cups a day—coffee is a safe beverage that may even offer some health benefits. The September issue of *Harvard Women's Health Watch* weighs the pros and cons of this popular beverage and eases the concerns of moderate coffee drinkers.

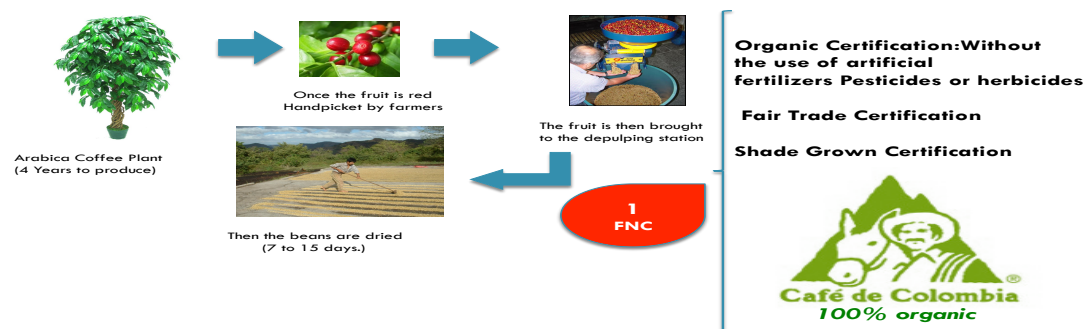
The latest research has not only confirmed that moderate coffee consumption doesn't cause harm, it's also uncovered possible benefits. Studies show that the risk for type 2 diabetes is lower among regular coffee drinkers than among those who don't drink it. Also, coffee may reduce the risk of developing gallstones, discourage the development of colon cancer, improve cognitive function, reduce the risk of liver damage in people at high risk for liver disease, and reduce the risk of Parkinson's disease. Coffee has also been shown to improve endurance performance in long-duration physical activities.

For those who drink coffee to stay alert, new research suggests that you'll stay more alert, particularly if you are fighting sleep deprivation, if you spread your coffee consumption over the course of the day. For instance, if you usually drink 16 ounces in the morning, try consuming a 2-3 ounce serving every hour or so. Again, moderation is the key.

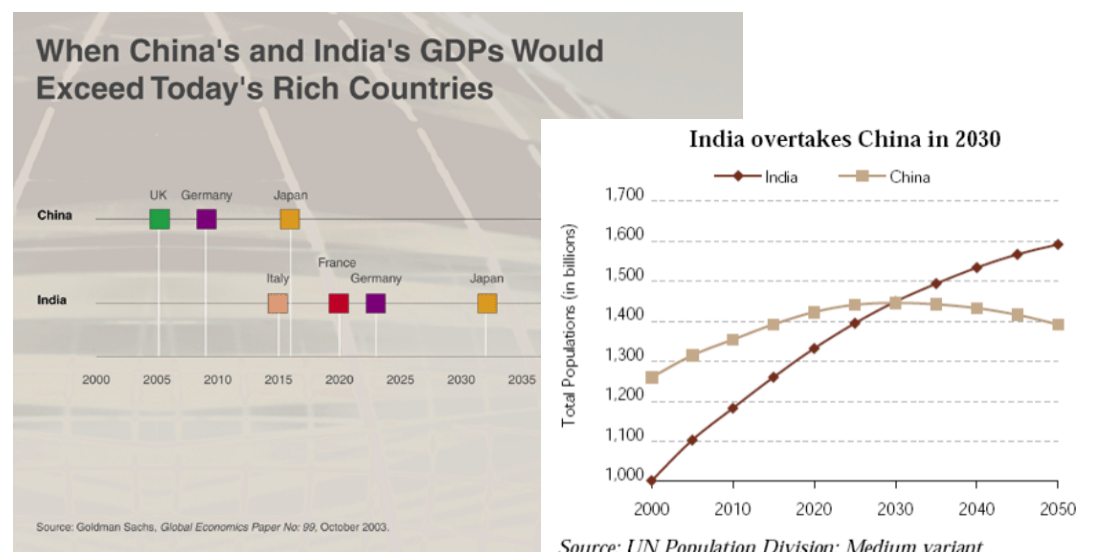


#### 4. Take advantage of the ecological and organic trend and market those characteristics.

Ecological behavior has become very popular worldwide as well as the consumption of organic items. US organic consumption increases 20% yearly. In this case it is very easy to turn the Colombian coffee into an organic brand: pesticides and herbicides can easily be avoided by Colombian growers, especially when they are going to benefit from it.



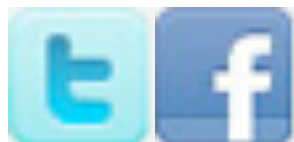
#### 5. The creation of new markets in Asia



## Appendix

### The present day

#### Juan Valdez Coffee Shop.



## **Bibliography**

Cialdini, Robert (1996) *The Psychology of Persuasion*, Sperry, California.

Holt, Douglas, John Quelch, and Earl Taylor, (2004). *How Global Brands Compete*, HBS, Cambridge.

Levitt, Theodore (1983). *The Globalization of Markets*, HBS, Cambridge.