

Postum's Fork in the Road

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Abstract

Postum is a trademark and trade secret of Eliza's Quest Food, a North Carolina, U.S., LLC. First launched in 1895 as a non-caffeinated coffee alternative by Postum Cereal Company, the formulation was created by C.W. Post and later sold to General Foods in 1929. In 2007, the brand was discontinued when Kraft acquired Postum from General Foods. Postum lovers responded with a "passionate campaign to bring back our Postum using online petitions, blogs, and websites to gain support. Their voices were heard" (Postum.com). In 2012, the coffee substitute, Postum, was purchased by Eliza's Quest Foods, owned by two long-time Postum users. Postum's modest suite of products include an instant, powdered grain format in three flavors: original (roasted wheat bran, wheat and molasses), coffee-flavored, and cocoa-flavored. The brand is marketed using the following claims: organic, non-GMO, vegan, kosher, all natural, and fair traded. The product is offered in seven- and eight-ounce jars and can be consumed warm or chilled. Postum may have benefited early from first-mover status, however it has declined in revenue from the latest available Nielsen measure, \$6.6 million in 1995 to \$900 thousand in 2016 (Buzzfile). Postum has since been flanked by a phalanx of large and small natural beverage competitors, non-caffeinated herbal teas, and the high-growth ready to drink (RTD) coffee market which is promoting a myriad of better-for-you beverage options. Postum must make a strategic decision. Should the company invest in Research and Development and launch new products and brands into a larger, growing, and more lucrative market or stay positioned in the coffee substitute market by taking the costs out of their value chain to become the low-cost provider?

Keywords: coffee substitute, all natural, ready-to-drink, better-for-you, strategic options

INTRODUCTION

Eliza's Quest Food is a privately-held company with six employees, owned and managed by June Rust, President, and Dayle Rust, two long-time Postum users who grew up with the brand and who appreciate the emotional connection Postum has with its loyal base. June Rust has a Masters in Arts in Education, East Carolina University. A VP with a vast background in retail and food service sales was recently hired. A 2,530 square foot facility modernization has been completed in anticipation of growth as a result of approved applications with key retailers for new points of distribution and favorable shelf placement. Since 2012, the management team at Eliza's Quest Foods has worked to develop packaging, warehousing, and shipping as well as directly selling/distributing Postum to distribution companies, individual grocery stores, health food stores, and managing on-line sales to individual consumers. In 2017, Postum leadership worked with Long Island University Post, LIU IQ Consulting student consulting team to develop a marketing plan. LIU IQ promotes the advancement of business knowledge and judgment among preeminent students, companies, and universities. The students benefit from exposure to professional business cases. Companies benefit from divergent thinking, dynamic problem solving, and an opportunity for new talent hiring. The final presentation from the team of students was well received by Postum leadership, it included recommendations for new distribution, a new product, packaging and labeling, marketing, advertising, and social media.

THE COFFEE SUBSTITUTE MARKET

The coffee substitute market was measured at \$7.5 million in 1995 (Elliot, 1995). Nielsen further reported that Postum had a significant 87.7% share of the coffee substitute market 52 weeks ending 12/10/1995. The advertising agency, Foote Cone Belding/Leber Katz Partners, General Foods/Kraft agency of record, was charged with creating the Postum comeback campaign delivering print, radio, recipes, and coupons to targeted consumers 55+ using the "truly soothing hot beverage" campaign. The yearlong campaign reportedly represented a spend of \$984 thousand (Elliott, 1995).

The competitive set in the coffee substitute market consists of Postum, Capomo, Ayurvedic Roast, Roma, Cafix, Pero, Beyond Coffee, Inka and Teeccino, as ranked on Amazon.com "The 10 Best Coffee Substitutes" (Dvoretz, 2017).

Brand	Ingredients/Claim
Postum*	Wheat bran, wheat, molasses (non-GMO, vegan, kosher, all natural, fair traded)
Capomo	Maya nuts, high in amino acids, (gluten, caffeine free)
Ayurvedic Roast	Barley, chicory root, rye, (organic, can boost immune system)
Roma	Barley, chicory, rye (vegan friendly)
Cafix	Barley, beer root (crystal form)
Pero*	Barley, chicory, rye (all natural)
Beyond Coffee	Barley, chicory, rye (GMO free)
Inka	Barley, chicory, rye, sugar beet (all natural)
Teeccino	Barley, chicory, almond, dandelion, carob, ramon seeds, dates, figs (herbal)

* unranked in the Amazon 2017 poll "The 10 Best Coffee Substitutes"

THE INSTANT COFFEE MARKET

A growth market to examine is instant coffee. Postum fits into the instant coffee arena in that it can be served instantly and is agglomerated in form. According to Globe Newswire (2017): “Instant coffee has gained significant popularity among consumers due to the convenience it provides in terms of time and preparation. The easy availability of instant coffee across various channels and its lower price versus ground coffee has contributed to its rising popularity. The CAGR for instant coffee is projected at 4.8% (\$28 billion in 2016 and \$43 Billion by the end of 2025. (as indicated in Table 1) Postum’s product is in the agglomerated (instant) form and can well tap into the market attribute of convenience.”

However, Postum does not have a cost advantage when compared to the best-selling brands. (as indicated in Table 2)

THE READY TO DRINK (RTD) MARKET

The RTD segment grew +6.5% from 2014-2015 (Beverage Marketing Group, 2016). Mintel estimates that the segment will continue to grow through 2020. (2017) (as indicated in Table 3). There is trending market potential in the beverage category within the younger demographic as they express preference for the RTD segment of the industry, while the caffeinated market remains large and tends to attract the older demographic. (as indicated in Table 4) According to a 2016 US IbisWorld Beverage Study, age is an important factor in consumers’ choice of a caffeinated beverage. Youngest consumers (under 18) cited carbonated soft drinks and tea as providing a greater percentage of caffeine consumption, whereas the oldest consumers studied (50-64) preferred coffee.(as indicated in Table 5) The CEO of PepsiCo, who organized a better-for-you segment of competitive entries for her company, stated that soft drinks are a “thing of the past” and that RTD bottled tea will be a sales driver for the company in the future (Berry, 2016). Large beverage manufacturers/marketers are competing in the RTD market bolstered by the twin trends of on- the-go and health and wellness.

Both large and small beverage manufacturers are responding to the better-for-you and RTD market potential with products and packaging that meet consumers demands by communicating stories of purpose, ingredients, and function (Berry, 2016). Claims include: natural ingredients, no artificial colors or flavors, no sugar, vitamins, minerals, protein, fiber, antioxidants, plant extracts, prebiotics, and probiotics. Non-GMO consumers are recognizing the value of buying products that are not potentially unstable to the food supply. Non-GMO sales exceeded \$10 billion last year. (as indicated in Table 6) According to Mintel (2016) when purchasing nutritional and performance drinks, the most important factors for U.S. consumers are favorite flavor (41%), amount of protein (40%), and high fiber (33%).

New entrants into the segment are touting artisanal brews, indulgent flavors, better-for-you formulations, cold brew technology, energy inducement, herb and vitamin enrichments, and no or low sugar (Food Beverage News, 2018). Anecdotally, based on the full rush to fragmentation and a now crowded segment, consumers may begin to take on a high engagement/high abandonment mentality. A projectable segmentation study of the RTD and functional beverage segments may lead manufactures to their most profitable opportunities.










MARKETING TO CONSUMERS

Postum attempts to engage current consumers using a nostalgic platform with copy harkening the reader back in time: “Postum. The Hot Beverage with Warm Memories,” “Rich Tradition,” “A Stroll Down Memory Lane,” “#WholesomePostum,” and photography from years past. The emotional benefit appears as one of sentimental longing and happy associations. The brand name and old-fashioned label work to preserve this emotional tie and to allow connection to those loyal to the brand years past. The functional benefit appears to be twofold: wholesomeness and a contrast to the experience of coffee jitters. There is nominal following on Postum social channels (Facebook, Instagram, Twitter, and Pinterest) perhaps bringing to light that social media is not consumed by an older demographic.

PRICING

Coffee Substitute Segment

Postum leads with highest price per ounce

Company	Price Per Ounce	Ounces Per Container
	\$2.12	8 ounces
	\$1.61	12 ounces
	\$1.54	11 ounces
	\$1.28	7 ounces
	\$1.22	7.05 ounces
	\$1.12	7 ounces
	\$1.06	16 ounces
	\$1.00	7 ounces
	\$0.76	11 ounces









Source: www.amazon.com February 2018
 Note 1: Postum price per ounce: \$1.31 (www.Postum.com)
 Note 2: Average price per ounce: \$1.30

The coffee substitute market competitive set to the left illustrates the price per ounce by brand. The average size container is 9.6 ounces and the average price per ounce is \$1.30.

Postum does not have low-cost advantage.

RTD Coffee Segment

Trader Joe's leads with the highest price per ounce

Company	Price Per Ounce	Ounces Per Container
	\$0.53	32 oz
	\$0.45	14 oz
	\$0.40	11.1 oz
	\$0.40	10 oz
	\$0.33	12 oz
	\$0.26	6.8 oz
	\$0.18	13.7 oz
	\$0.18	9.5 oz

Source: www.amazon.com February 2018
 Note 1: Trader Joe's Cold Brew entry is a coffee concentrate
 Note 2: Sallaway pricing(Sallawaycoffee.com) / Slingshot pricing(Slingshotcoffee.com)
 Note 3: Average price per ounce: \$0.34

The RTD competitive set illustrates the price per ounce by brand. The average size container is 13.6 ounces and the average price per ounce is \$0.34.

If the leadership of Postum desires future revenue growth, the question is what is their path to the future: new markets? new brands? new target age groups? product development? new alliances and distribution (K-cups)? new imagery including brand influencers? The challenge is to investigate what consumers value in a non-caffeinated, non-alcoholic, warm or cold beverage, or develop a new brand that better resonates with younger consumers.

RESEARCH AND DEVELOPMENT (R&D)

Postum's dedication and investment in R&D must be significant if it decides on a differentiation strategy to broaden its line. If, on the other hand, it opts to compete in its current product and packaging in the coffee substitute market, it may become obsolete.

THE PROBLEM

Which strategy, low-cost provider or differentiation, should the leadership at Postum employ to best fuel growth over the next three years? Postum leadership would like to know if developing a new brand specifically for a larger and more lucrative market or staying positioned in the coffee substitute market as a low-cost provider is their best alternative.

ASSIGNMENT

1. After conducting an internal and external scan, which strategy should the company employ to best position itself for growth?
 - Low-cost provider- striving to achieve lower overall costs than rivals on products to attract a broad or niche spectrum of consumers.
 - Differentiation- differentiating the product from rivals with attributes that attract a new spectrum of consumers.
2. Should Postum remain in the coffee-substitute sector and appeal to its consumers (55+) using its legacy of "memories"? If so, how can they improve the marketing strategy?
3. Should Postum appeal to new consumer tastes? And if so, which direction should the brand take to be best positioned in the market moving forward?

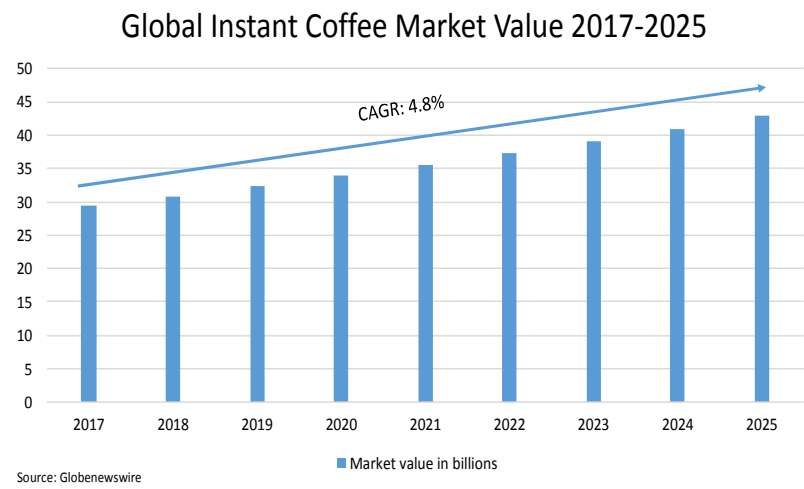


Table 1

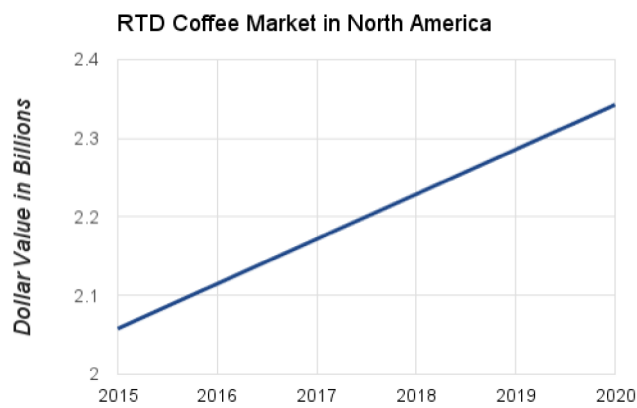
Table 2

Price Per Ounce Leading Instant Coffee Brands

Brand	Price per ounce
Postum	\$2.12
Folgers	\$0.82
Nescafe Taster’s Choice	\$0.74
Maxwell House	\$0.72

Source: Amazon.com 2/18

Table 3
Expected growth of the RTD Coffee Market



From 2015-2020 the market’s value is expected to rise at a compound annual growth rate of 2.6%

Source:Business Insights

Table 4

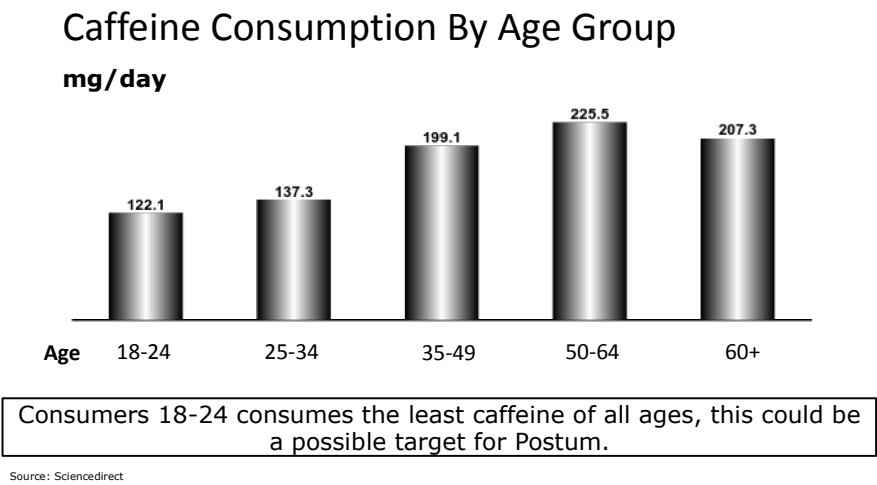


Table 5

Preference of caffeine products differ by age

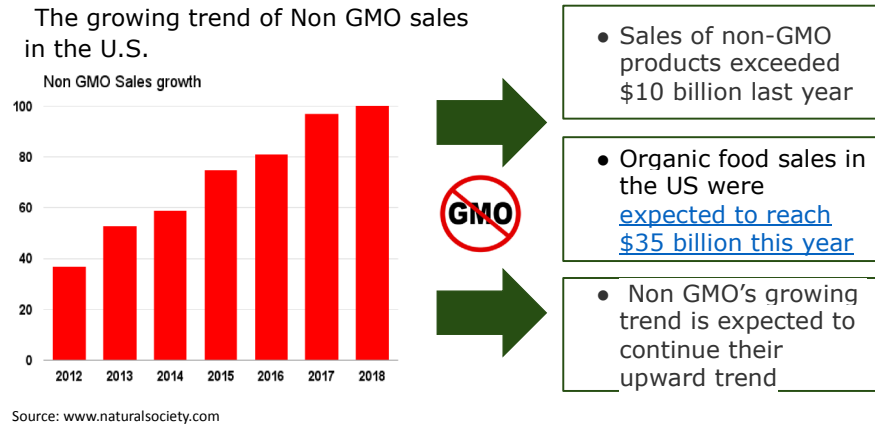
A beverage study conducted in the US shows that age is an important factor in consumer's choice of caffeinated beverage



Source: IbisWorld

Table 6

Non GMO consumers increasing in the future



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