MgtS 4481
Strategic Management
Green Mountain Coffee Case
Grading Guide

Student: Angie Paulucci

Industry analysis: A
Strategy analysis: A
Internal analysis: A
Integration: A
Evaluation: A

Total score: A = 98.2

Comments:

Angie: Wow! This is wonderful work! You've done a very thorough and insightful job throughout. There are very few areas I'd change, and those changes are really minor quibbles. For example, one could argue that "responsible" business operations (fair trade) is almost a KSF for the specialty group, so awareness of these practices probably won't set GM apart. However, my points are all at that level, and merely reflect the outstanding job you've done. Well done!
Green Mountain Coffee Roasters
Case Analysis

MgtS4481
Angie Paulucci
October 27, 2005
Introduction

Green Mountain Coffee Roasters (GMCR) is one of the leading specialty coffee companies in its established markets; however it is still extremely important to take a step back and assess its strategic position. To assist in analyzing GMCR’s strategy, I will be discussing the industry in which GMCR operates, as well as the overall strategy of the firm. I will then analyze GMCR’s resources and competencies, followed by an explanation of how they can be integrated into GMCR’s overall strategy. Finally, I will conclude with an assessment of GMCR’s effectiveness and performance.

Industry Analysis

The coffee industry in which GMCR competes consists of two distinct strategic groups: the mass-production coffee group, such as Folgers, and the specialty coffee group, such as GMCR. The mass-production group, clearly at its maturity stage, makes up 41% of coffee consumers, while 12% drink specialty coffee; however, the profitable specialty coffee sector is a relatively new and attractive market as evident from its extremely competitive market such as its threat of new entrants. Refer to Appendix A and B for more detail on industry competition within each strategic group.

In order to be a successful coffee roaster, competitors within each strategic group must possess industry key success factors (KSF). While some of these KSF’s differ for each group, there are also some that overlap. As you can see in Appendices C and D, competitors with in both strategic groups must fight for brand awareness and recognition from its consumers to be successful in the coffee industry.

The coffee industry does not compete in calm and stable market. New environmental trends are taking place and shape each day known as driving forces. Appendix E and F show the
driving forces for each strategic group. These forces can greatly affect the attractiveness of each group. For example, the mass-production group is currently being negatively affected by value migration, causing it to be unattractive. On the other hand, the specialty group still appears to be attractive despite the shift to home consumption due to its innovation and multichannel distribution.

Overall, the coffee industry is an attractive industry to be in, especially if you are competing in the specialty coffee group. While it is not difficult to enter into this group, one's biggest challenges to overcome are brand loyal customers within the industry. According to the National Coffee Association, more than 108 million people in the U.S. are daily coffee drinkers, and more than 166 million have consumed coffee in the past. With the combination of value migration and increases in coffee consumption, the specialty coffee sector is looking right on track. The U.S. accounts for 20% of total coffee consumption, all while the specialty sector is growing to more than 9% of the U.S. population.

**Strategy Analysis**

GMCR is focused on building the brand with profitability growing the business. Its strategy is to continue to increase sales over the next few years at a rate similar to its historical five-year growth rate of 13-18%. It plans to do this by increasing market share in existing markets and expanding into new geographic markets. You can view how GMCR plans to carry out this strategy by looking at Appendix G. I would characterize the firm’s strategy as achievable; however, they will face the obstacles when expanding into new geographic markets. Since GMCR is mostly popular in the Northeastern part of the U.S., there may be other popular brands specific to other regions of the U.S., causing GMCR to have difficulty changing brand
loyal customers. GMCR’s overall technologies and differentiators should set it apart from its competitors.

GMCR’s current strategy focuses on differentiation within a narrow market. GMCR is focused on the wholesale channel in the gourmet coffee niche that has unique buyers. This is why GMCR uses multichannel distribution because the diversity of its end users. Appendix H goes more in depth explaining why GMCR is a differentiation focus.

Resources & Competence Analysis

Resources and competencies are found in Appendices I, J, and K. As you can see, GMCR’s excels in areas of reputation, physical assets, and innovation. I feel like GMCR’s reputation is slightly unknown to its consumers, such as its awards and donations. If customers knew that a lot of their sales transactions were eventually being donated to a good cause, that this could really differentiate GMCR. While GMCR’s technological assets are important, I feel that anyone entering into the specialty coffee industry must obtain roasting software and packaging abilities. The other resource that makes GMCR stand out are its Keurig K-Cups, which has contributed to its success in the office coffee service channel, which could in turn lead to increased home consumption. Refer to Appendix M to view GMCR’s ranking on the VRIS scale. As already mentioned, the most important resources for a sustainable competitive advantage is GMCR’s outstanding reputation.

Appendix L looks at the important value added activities at GMCR divided into primary and support activities. To sum it up, the primary activities for GMCR are strong and add value to the firm. The marketing and service activities are well executed, which are key to obtaining and keeping happy customers. From what I found, the support activities do in fact help the
primary activities, which also add value to the firm; however, the case did not go into much
detail about general administration or human resources.

Integration

GMCR’s resources and competencies almost match the industry’s KSF’s perfectly, as shown in Appendix D. They have resources that differentiate themselves from the other competitors in the specialty industry such as the Keurig K-Cup and their reputation. Also, they use multichannel distribution methods through convenience stores, restaurants, supermarkets, office coffee services, and other food services. Because of their multichannel strategy, they have some brand awareness and recognition across the U.S., but most recognition is found in the northeast part of the U.S. Finally, GMCR has superior customer service which leads to strong customer relationships and brand loyalty. Overall, GMCR has what it takes to succeed in the industry; however, almost half of its resources and competencies are positioned for competitive parity, while very few are sources of sustainable competitive advantage. This means that even though GMCR has qualities that set it apart from its competitors and matches KSF’s for its industry, it still needs to go the extra mile to end up becoming number two to Starbucks.

As you can see from Appendix F, GMCR’s resources and competencies correspond perfectly to the industry driving forces. With the increase in overall coffee consumption and growth rate of the consumption in the specialty sector, GMCR’s position is ideal. GMCR is also positioned well for the shift to home coffee consumption. With its numerous channels of distribution, with the largest percentage distributed to supermarkets (30.3%), along with the fact that consumers favor the supermarket for the purchase of whole bean specialty coffee, GMCR is right on target. A problem that GMCR is faced with is brand loyalty with other coffee companies and how to capture that market.
Overall, GMCR has what it takes to execute its strategy because it is an independent roaster and has the time and energy to focus all of its attention on increasing market share and expanding into new geographic markets.

Evaluation

GMCR’s financial analysis can be found in Appendix N. It is performing well financially. As found in the case, all financial figures are increasing from 1999 to 2003; however, when you look closer at these figures using financial ratios, one can truly see what’s going on. It appears that the year 2001 was relatively successful for GMCR, and since then it has only been declining financially. GMCR needs to review its past and find out what it did in 2001 what worked and why they went downhill from there. Refer to Appendix N to see how each ratio is being affected throughout the five year period.

GMCR’s strategic performance is outlined in Appendix O, using the balance scorecard. GMCR’s strategy seems very promising considering its success so far as one of the leading specialty coffee companies in its established markets. The only question lies in whether or not it can be successful in other markets already established by other coffee companies; however, according to exhibit 1 in the case, the amount of wholesale coffee sold has increased in all geographic regions, but GMCR’s primary region. This may mean that its primary market is becoming saturating, giving it all the more reason to expand and see great results. All in all, GMCR is excelling internally, from the customers point of view, and through innovation.

Conclusion

The best way to execute GMCR’s strategy is for them to focus on their strong resources and competencies, while continuing to expand into new markets through multichannel distribution.
Appendix A:  
Porter’s Five-Forces Model of Industry Competition  
Mass-production Coffee Group

Threat of New Entrants (LOW)  
- Product differentiation: existing competitors have a strong brand identification and customer loyalty. New entrants would have to spend heavily to overcome existing customer loyalties to brands such as Folgers.  
- Access to distribution channels: entrants need to secure distribution for product

Rivalry Among Existing Firms (HIGH)  
- Numerous or equally balanced competitors: competition between the “Big Three”  
- Lack of differentiation: coffee is a commodity product, where the buyers choice is typically based on price and service  
- Competitors: Proctor & Gamble, Altria Group, & Nestle SA  
- Indirect competitors: Specialty Coffee companies such as Starbucks

Power of Buyers (HIGH)  
- The products it purchases from the industry are standard or undifferentiated: coffee is a commodity product and buyers are confident they can always find alternative suppliers.  
- It earns low profits: distribution channels such as grocery stores earn low profits, thus creating incentives to lower purchasing costs  
- Buyers may include convenience stores and grocery stores

Power of Suppliers (LOW)  
- Have no power because it’s a mass commodity product

Threat of Substitute Products (HIGH)  
- If viewed as a source of caffeine, then we can view the treats of substitutes as strong (variety of soda will do the trick; Mt. Dew)  
- If viewed as a source of something warm and soothing, the threat is medium (tea, hot chocolate, apple cider)  
- If viewed as a morning beverage, we can view the threat of substitutes as strong (orange juice (all juices) & milk)  
- If viewed as an after dinner drink, we can view the threat of substitutes as strong (most alcoholic beverages such as Sambucca)
Appendix B:  
Porter’s Five-Forces Model of Industry Competition  
Specialty Coffee Group

Threat of New Entrants (MEDIUM)
- Product differentiation: existing competitors have a strong brand identification and customer loyalty. New entrants would have to spend heavily to overcome existing customer loyalties to brands such as Starbucks.
- Capital Requirements: investment such as state-of-the-art roasting software necessary in order to compete; however, the coffee industry capital requirements aren’t as expensive as other industry requirements are.
- Access to distribution channels: entrants need to secure distribution for product; however, specialty coffee is new and in high demand, so channels will be open to new companies.

Rivalry Among Existing Firms (HIGH)
- Numerous competitors: success of specialty coffee sector because of increasing demand for high-quality, freshly roasted coffee.
- Primary competitors: Gevalia, Illy Café, Millstone, Peet’s Coffee & Tea, Seattle’s Best, Starbucks.
- Indirect competitors: 500 smaller and regional brands.

Power of Buyers (MEDIUM)
- The products it purchases from the industry are not standard or undifferentiated.
- It purchases large volumes relative to the seller sales: approximately 30% of coffee pounds are sold from the supermarkets as well as convenience stores.
  Sixty-one percent of consumers buy specialty coffee at grocery stores.
- It earns low profits: distribution channels such as grocery stores earn low profits, thus creating incentives for suppliers to lower purchasing costs.
- Buyers may include offices, retail, convenience stores, and grocery channels.

Power of Suppliers (MEDIUM)
- Few firms dominate the industry: suppliers use the Arabica bean which usually grow at high elevations, absorb little moisture, and mature slowly.
- The supplier’s product is an important input to the buyer’s business: specialty coffee cannot survive without the supplier.
- The industry is an important customer of the supplier group.

Threat of Substitute Products (HIGH)
- If viewed as a source of caffeine, then we can view the treats of substitutes as strong (specialty energy drinks: Red Bull).
- If viewed as a source of something warm and soothing, the threat is medium (tea, hot chocolate, apple cider).
- If viewed as a morning beverage, we can view the threat of substitutes as strong (orange juice (all juices) & milk).
- If viewed as an after dinner drink, we can view the threat of substitutes as strong (most alcoholic beverages such as Sambucca).
Appendix C:
Key Success Factors
Mass-production Coffee Group

Key Success Factors:

- Cost Efficiencies
- Constant innovativeness
- Brand Awareness/Recognition
- Brand Loyalty

Mass-production Coffee Companies in Relationship to KSF’s:

- **Cost Efficiencies:** To have a chance at increasing market share, mass-production coffee companies must be able to produce for a low unit cost in order to increase their profit margin in the flat coffee market.

- **Constant Innovativeness:** Mass-production coffee companies must anticipate shifts in consumer needs ahead of time and act accordingly and preferably before specialty coffee company make the change. For example, when there was a value migration, mass coffee producers lost a significant amount of market share. They then made several failed attempts at marketing gourmet coffee, and assumed it was only a fad. However, the majors, P&G, Nestle, & Atria Group, have launched their own specialty coffee brands, with annual revenues of more than $100 million.

- **Brand Awareness/Recognition:** This can be achieved through various forms of advertising and should be focused on whoever does the grocery shopping in the household. Companies need to get there name out there. Studies show that over 75% of coffee drinkers drink coffee at home. I know when I think of coffee, I think Folgers; therefore, that is what I would purchase in a grocery store. If the purchase is simply for the purpose of jump-starting your day, go with what you recall from advertising, and it will do the trick!

- **Brand Loyalty:** Mass-production coffee has been around much longer than specialty coffee; therefore, brand loyalty is an important success factor to keep current customers. Studies show that 41% of daily coffee drinkers consume regular coffee and this means that mass-production companies need to use outstanding customer service and be in the know about customer needs in order to keep these current customers happy.
Appendix D:
Key Success Factors
Specialty Coffee Group

Key Success Factors:

- Differentiation
- Multichannel Strategy
- Brand Awareness/Recognition
- Customer Relationships

Green Mountain’s Resources & Competencies in Relationship to KSF’s:

- **Differentiation**: A company needs to find a way to set itself apart from its competitors in the industry. Not only is GM innovative with its cup/whole bean interrelationship, Keurig K-Cup, and roasting techniques and programs, but GM is also socially and environmentally responsible. GM has partnerships with numerous nonprofit organizations and coffee farms. GM offers quality Arabica beans combined with finest processing and cultivation methods. Consumers can expect good tasting, quality coffee from GM due to its innovative roasting programs.

- **Multichannel Strategy**: This provides widespread exposure to the brand in a variety of settings, ease of access to the products, and many tasting opportunities for consumer trial. Studies show that 61% of people prefer to purchase whole bean specialty coffee in a supermarket/grocery store; therefore, grocery store channels need top priority for distribution. The world we live in is fast paced and if a consumers coffee of choice isn’t available where and when they need it, then they’re going to use the competitors’ products. GM prides itself in its ease of access to products, which are available across the U.S. It distributes to convenience stores, restaurants, supermarkets, office coffee services, and other food services such as JetBlue Airways, Columbia University, and Amtrak.

- **Brand Awareness/Recognition**: This has proven to be a success factor for GM in the northeastern part of the U.S. and needs to continue to be a success throughout the whole U.S. This can be achieved through multichannel distribution and all GM to grow the business and expand into new territories. Some of GM’s resources that help it achieve this KSF are its rankings in *Forbes*, *Business Ethics*, and *Global Finance*. Furthermore, GM’s partnerships and numerous donations contribute to its brand awareness.

- **Customer Relationships**: While GM is opening more and more channels of distribution around the U.S., the majority of the growth was driven by improved business with current customers resulting in brand loyalty. GM possesses superior customer service and allows trial/sample opportunities. Its mail-order business, partnerships, and donations also contribute to this KSF.
Appendix E: Driving Forces
Mass-production Coffee Group

Driving Forces:

- Value Migration
- Stagnant U.S. Market
- Increase in Coffee Consumption

Mass-production Coffee Companies in Relationship to the Driving Forces:

- **Value Migration:** Consumers needs have shifted and they have begun to demand only the top-notch, high-quality products. The “Big Three” major specialty coffee companies’ designs – customer selection, resource allocation, and growth strategies – were marred by an overly categorical definition of products and benefits, a limited field of competitive vision, and an obsolete view of the customer. On the other hand, new innovators anticipated this shift and acted accordingly. In response, the majors cut prices and used coupons; this did nothing to raise brand prestige. Overall, customers are now interested in high-quality, premium-priced coffee and mass-production companies should have anticipated this shift before it was too late.

- **Stagnant U.S. Market:** Even with the success of the U.S. specialty coffee sector, the dynamism of the U.S. coffee market once displayed has moved on to Europe and Asia, particularly Japan. During World War II, the U.S. was responsible for up to 80% of the world coffee consumption, and it now accounts for only 20%. Much of it has been due to growth in coffee drinking elsewhere. A suggestion may be to follow the market over to Europe, but as learned from the Nestle example: companies aren’t always simple to switch from country to country. Companies should simply take this driving force into account if their revenues decrease.

- **Increase in Coffee Consumption:** According to the National Coffee Association, more than 108 million people in the U.S. are daily coffee drinkers, and more than 166 million have consumed coffee in the past. American consumed more than 6.2 billion gallons of coffee in 2002, a 1.8% increase over consumption in 2001. The total coffee market in 2003 is estimated to be 1.8 billion pounds, or $19.3 billion. The majority of this increase in consumption involves regular coffee (41%).
Appendix F:
Driving Forces
Specialty Coffee Group

Driving Forces:

• Shift to Home Consumption

• Stagnant U.S. Market

• Increase in Coffee Consumption

Green Mountain’s Resources & Competencies in Relationship to Driving Forces:

• Shift to Home Consumption: Over 75% of coffee drinkers drink coffee at home. GM has used this and their innovation to their advantage by partnering with Keurig, Inc., and introducing Keurig home brewer, and the “by the cup”/“by the pound” strategy. Furthermore, studies show that consumers favor the supermarket or grocery store for the purchase of whole bean specialty coffee and according to Exhibit 4, as of September 2003, the majority (30.3%) of GM’s coffee is distributed to Supermarkets. GM is right on target with this driving force.

• Stagnant U.S. Market: Even with the success of the U.S. specialty coffee sector, the dynamism the U.S. coffee market once displayed has moved on to Europe and Asia, particularly Japan. During World War II, the U.S. was responsible for up to 80% of the world coffee consumption, and now it accounts for only 20%. Much of it has been due to growth in coffee drinking elsewhere. The U.S. industry now consumes only 5% of the world’s specialty coffee output. This means that even though the U.S. consumes such a small amount of specialty coffee, that doesn’t mean that GM can’t use their human, technology, and innovation to try to capture the majority of that 5%. They are also faced with the idea of moving over to Europe, but as with Nestlé’s unsuccessful attempt, they may fail too. GM’s strong brand loyalty due to superior customer service will be important during this driving force.

• Increase in Coffee Consumption: According to the National Coffee Association, more than 108 million people in the U.S. are daily coffee drinkers, and more than 166 million have consumed coffee in the past. American consumed more than 6.2 billion gallons of coffee in 2002, a 1.8% increase over consumption in 2001. The total coffee market in 2003 is estimated to be 1.8 billion pounds, or $19.3 billion; however, only 12% of daily coffee drinkers consumer specialty coffee. GM needs take advantage of this driving force and increase the amount of people who choose GM’s specialty coffee over mass-produced coffee. This can be done through their resources and competencies such as their innovation, technology, brand image, excellent product development capabilities, and superior customer service.
Appendix G:
Hambrick & Fredrickson’s Five Major Elements of Strategy

ARENAS: (Where will we be active?)
Product Category: Coffee
Market Segments: Office Coffee Service, Convenience store, food services, supermarkets, specialty food stores, hotels, restaurants, universities, travel, home
Geographic Areas: U.S. (Primarily in the N.E.)
Core Technologies: State-of-the-art roasting software, convection air roasters, and nitrogen flushed packaging
Value-creation Stages: Product design and distribution

VEHICLES: (How will we get there?)
Alliance: GM forms an alliance with Keurig to focus on the Keurig single-cup brewer as a way to reach consumers in the office and home
Internal product development: State-of-the-art roasting software, convection air roasters, packaging
Expansion: New channels of distribution
Relationships: Flagship customers such as JetBlue Airways, ExxonMobile, and Amtrak

DIFFERENTIATORS: (How will we win?)
Brand Image: High quality, premium coffee; socially & environmentally responsible
Product Reliability: GM is an independent roaster, allowing it to be better focused with its wholesale customers’ needs by providing state-of-the-art roasting software that enables it to duplicate specific roasts exactly
Product Innovation: Single-cup Keurig portions; Keurig home brewer; Celestial Seasonings tea in K-Cups
Differentiation: “By the cup”/”by the pound” strategy; GM roasts its coffee individually prior to blending; consumer trials through convenience stores, office coffee services, and food service establishments

STAGING: (What will be our speed and sequence of activities?)
Speed of Expansion: Increase sales over the next few years at a rate similar to its historical five-year growth rate (13-18%)
Sequence of initiatives: Increase market share in existing markets (northeastern U.S.) and expanding into new geographic markets by the help of flagship customers such as Amtrak and JetBlue Airways; GM’s expansion processes capitalizes upon this cup-whole bean interrelationship

ECONOMIC LOGIC: (How will we obtain our returns?)
Premium prices due to high-quality coffee, superior customer service, and innovation
Appendix H:
Porter’s Model of Generic Strategies

Source of Competitive Advantage

<table>
<thead>
<tr>
<th>Broad Market</th>
<th>Cost Leadership</th>
<th>Differentiation</th>
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</thead>
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<tr>
<td>Market Focus</td>
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<td>Niche Market</td>
<td>Cost Focus</td>
<td>Differentiation Focus</td>
</tr>
<tr>
<td></td>
<td><strong>Green Mountain Coffee Roasters</strong></td>
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</table>

Where does Green Mountain Coffee Roasters fit into Porter’s Framework?
- Differentiation Focus

Why the Differentiation group?
- GM’s specialty coffee is unique and valued
- GM emphasizes its “nonprice” attributes for which customers will gladly pay a premium (therefore, not a cost-leadership group)
- GM directs its attention only toward narrow product lines, buyer segments, or targeted geographic markets
- It offers its specialty coffee to multiple channels of distribution because the diversity of end users limits the risk of GM’s dependence on any single distribution channel
- GM is focused on the wholesale channel in the gourmet coffee niche
- GM’s innovativeness and personal relationships with key customers differentiate it from mass-production coffee producers
Appendix I:
Green Mountain’s Tangible Resources

TANGIBLE

Financial:
- Ranked 70 by 2003 Forbes magazine: Has (at least) sales of between $5 million and $600 million for the latest 12-month period, a five-year average return on equity of 5 percent more, a stock price of $5 or more, and a net profit margin of 5% or more, excluding extraordinary and nonrecurring items.

Physical:
- Keurig’s brewing equipment that brews high-quality coffee
- Keurig K-Cup: Contributed to success in the office coffee service
- Celestial Seasonings tea in K-Cups
- Convenient network of outlets: Available in various distribution channels and customer categories
- Mail-order business: Began demand at GM

Technological:
- State-of-the-art roasting software: Enables it to duplicate specific roasts more exactly ensuring consistent tastes
- Nitrogen flushed coffee packaging: enables GM to expand distribution while maintaining its high standards for quality and freshness

Organizational:
- Effective Strategic Planning: GM was the first roaster to sell its coffee in Keurig’s innovative single-cup brewing system and has established a dominant position in the sale of sing-cup Keurig portions
Appendix J:  
Green Mountain’s Intangible Resources

INTANGIBLE:

Human:
- Bob Britt, former VP and CFO, is committed to continued success and expansion of GM
- Bob Stiller, president and CEO, and Daniel Martin, VP of Sales and Marketing, are willing to take risks, be innovative, and also have faith in the launch of the “Keurig at home” brewer
- Flagship customers: Customers such as Amtrak and ExxonMobile are key to the company’s geographic expansion strategy, as they provide great visibility and sampling opportunities
- Partnerships: Partnered with the U.S. Agency for International Development and Ecological Enterprise Ventures, Inc., a nonprofit organization, to develop a new pre-harvest financing mechanism for sustainable coffee producers; Other partners include Heifer International, Inc., and Newman’s Own Organics

Innovation & Creativity:
- Development of specific roasting programs: This differentiates itself from other specialty coffee and has results in strong customer brand loyalty
- GM was the first roaster to sell its coffee in Keurig’s innovative single-cup brewing system and has established a dominant position in the sale of single-cup Keurig portions

Reputation:
- Brand Image: GM is one of the leading specialty coffee companies in its established market
- Quality: GM roasts its coffee in small batches to ensure consistency; packaging extends shelf-life
- Strong Customer Brand Loyalty: A result of its roasting programs and mail-order business
- Ranked 70 by 2003 Forbes magazine’s list of the “200 Best Small Companies in America”
- Ranked 8 on Business Ethics’ list of “100 Best Corporate Citizens”
- On Global Finance’s list of “The World’s Most Socially Responsible Companies” in October 2003
- Donations: Contributed over 5% of its pretax income to various coffee farms, cooperatives, and nonprofit organizations in the U.S. and in coffee producing countries; Not only does GM donate, but they get involved in hands-on projects.
Appendix K:
Green Mountain’s Organizational Competencies

ORGANIZATIONAL COMPETENCIES:

- Superior customer service: GM allows customers to have sample/trial opportunities which tend to lead to more purchases
- Socially and environmentally responsible: Gives back to the community and protects the environment
- Excellent product development capabilities: State-of-the-art roasting and packaging enables GM to preserve consistent taste and quality
- Innovativeness of products and services: GM anticipates new market trends and takes action. For example, GM created an alliance with Keurig and its K-Cups because there was an increase in home and office coffee consumption
Appendix L:
The Value Chain: Primary & Support Activities

PRIMARY ACTIVITIES

Inbound Logistics:
- N/A

Operations:
- Nitrogen-flushed packaging enhances quality
- Efficient processing and cultivation methods
- Coffee roasted in small batches to ensure consistency
- Environmentally and socially responsible

Outbound Logistics:
- Nitrogen-flushed packaging provides minimum shelf-life of six months

Marketing & Sales:
- Customer trial/sampling through various channels of distribution
- Selection of most appropriate distribution channels
- Ability to form customer relationships to improve business
- Mail-order business

Service:
- Customer trial/sampling through various channels of distribution
- GM’s specific roasting programs establish GM “signature” roasting methods that offer consistent taste profiles for customers
- Easy access to its products via multichannel distribution
- Superior Customer Service

SUPPORT ACTIVITIES

General Administration:
- Ability of top management to anticipate & act on key environmental trends such as GM’s Keurig K-Cup particularly for the office coffee service channel
- Excellent customer relationships/superior customer service
- Respected CEO enhances firm reputation
- Donates frequently to coffee farms, cooperatives, and nonprofit organizations in the U.S. and in coffee-producing countries

Human Resource Management:
- Socially & environmentally responsible

Technology Development:
- State-of-the-art roasting software
- Nitrogen-flushed packaging
- Culture to enhance creativity & innovation, thus leading to the addition of the K-Cup

Procurement:
- Development of collaborative “win-win” relationships with suppliers: GM believes that doing well financially can go hand in hand with giving back to the community and protecting the environment
- Purchase of high-quality components to enhance product image
Appendix M:
Four Criteria for Assessing Sustainability of Resources & Capabilities (VRIS)

<table>
<thead>
<tr>
<th>Resource/Competency</th>
<th>Valuable</th>
<th>Rare</th>
<th>Difficult to Imitate</th>
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<td>Placed on Global Finance list</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td>X</td>
</tr>
<tr>
<td>Donations</td>
<td>X</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Superior Customer Service</td>
<td>X</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Socially &amp; Env. Responsible</td>
<td>X</td>
<td>X</td>
<td></td>
<td>X</td>
</tr>
<tr>
<td>Product Development Capabilities</td>
<td>X</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Innovativeness of products</td>
<td>X</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Is a resource or capability...

<table>
<thead>
<tr>
<th>Valuable</th>
<th>Rare</th>
<th>Inimitable</th>
<th>Unsubstitutable</th>
<th>Implications for Competitiveness</th>
</tr>
</thead>
<tbody>
<tr>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>Competitive Disadvantage</td>
</tr>
<tr>
<td>Yes</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>Competitive Parity</td>
</tr>
<tr>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
<td>Temporary Competitive Advantage</td>
</tr>
<tr>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Sustainable Competitive Advantage</td>
</tr>
</tbody>
</table>

Outcome:
- None of GM’s resources or competencies are a competitive disadvantage because then they would not be regarded as a resource or competency.
- Nine of the above resources and competencies are classified as Competitive Parity, which means that the firm is no better than anyone else.
- One of the above resources and competencies, GM’s packaging method, is classified as Temporary Competitive Advantage.
- Four of the above resources and competencies are classified as Sustainable Competitive Advantage. One is its roasting software, the other three are rankings in prestigious magazines, thus GM’s outstanding reputation.
**Appendix N:**
**Green Mountain Coffee Roaster’s Financial Analysis**

The following table lists 5 types of ratios based on Green Mountain Coffee Roaster’s financial information from the years 1999-2003. The table is in thousands, except per share data.

<table>
<thead>
<tr>
<th></th>
<th>1999</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Income/Assets = ROA</strong></td>
<td>9.41%</td>
<td>15.24%</td>
<td>16.76%</td>
<td>10.92%</td>
<td>10.45%</td>
</tr>
<tr>
<td><strong>Income/Sales=Profit Margin on Sales</strong></td>
<td>3.46%</td>
<td>4.94%</td>
<td>6.05%</td>
<td>5.97%</td>
<td>5.37%</td>
</tr>
<tr>
<td><strong>Sales/Coffee Pounds Sold</strong></td>
<td>$7.21</td>
<td>$7.73</td>
<td>$7.70</td>
<td>$7.41</td>
<td>$7.50</td>
</tr>
<tr>
<td><strong>Income/Coffee Pounds Sold</strong></td>
<td>$0.25</td>
<td>$0.38</td>
<td>$0.47</td>
<td>$0.44</td>
<td>$0.40</td>
</tr>
<tr>
<td><strong>Returns to Shareholders (ROE)</strong></td>
<td>$0.32</td>
<td>$0.59</td>
<td>$0.80</td>
<td>$0.82</td>
<td>$0.86</td>
</tr>
</tbody>
</table>

**ROA**, or return on assets, shows how effectively assets are being used to generate a return. During this five year period, Green Mountain’s ROA is unstable. As you can see, it jumps significantly after the first year and then drops back down again in 2002 and 2003. Based on this financial information, we can conclude that Green Mountain may have problems producing sufficient income from its assets.

**Profit margin on sales** for Green Mountain shows how much profit is generated by every dollar of sales. Showing similar patterns as the ROA, the profit margin also jumps significantly after the first year and then drops back down slowly to 5.37% in 2003. This means that Green Mountain may be having problems generating adequate profits from sales, as they are unstable through the five year period. Also, in general, a 5% or so profit margin is not significant; however, I am not provided with the industry norm.

**Sales per coffee pounds sold** shows the amount of sales or revenues generated per pound of coffee over the five year period. As you can see, the sales per pound are relatively stable since they all vary around $7.50. These differences can be due inflation rates.

**Income per coffee pounds sold** shows the amount of income generated per pound of coffee over the five year period. This shows a similar pattern to the ROA and profit margin: income per pound gradually increases to $0.47 in 2001, and then slowly starts to decrease.

**Returns to shareholders**, or ROE, is given in the text as “income per share from continuing operations – diluted.” As the book and above table shows, the returns to shareholders gradually increase from 1999-2003. This shows how effectively amounts invested in the business by its owners are being used to generate a return.
Appendix O:
Green Mountain’s Assessment of Strategic Performance: The Balanced Scorecard

**Customer Perspective** “How do customers see us?”
From the perspective of the customer, Green Mountain is doing an excellent job.
- Superior Customer Service
- The majority of growth in the convenience store channel was driven by improved business with current customers
- Opportunity to sample/trial coffee at channels of distribution
- Offer a variety of high-quality “signature” coffee’s
- Easy access to its products/convenient network of outlets
- Rapid growth in net sales over 5-year period

**Internal Perspective** “What must we excel at?”
Green Mountain performs very well from the internal perspective.
- High productivity which leads to increased sales from year to year
- Socially and environmentally responsible: gives back to the community and protects the environment’
- Independent roasters allows GM to focus on what it does best: Specialty Coffee
- Excellent product development capabilities: roasting software, roasting programs, nitrogenflushed packaging, Keurig’s K-Cup
- Multichannel distribution and partnerships
- Superior ratings from *Forbe’s, Business Ethic’s, & Global Finance*
- Efficient processing and cultivation methods result in consistency in taste

**Innovation & Learning Perspective** “Can we continue to improve & create value?”
Green Mountain has amazing potential to grow and learn.
- By increasing market share in existing markets and expanding into new geographic markets
- Wider availability of high-quality coffee
- GM provides tasting opportunities for consumer trial
- Expand upon the cup/whole bean interrelationship
- Constant monitor the environment for new trends and demands
- Continue doing business with Flagship customers such as JetBlue Airways and Amtrak

**Financial Perspective** “How do we look to shareholders?”
While Green Mountain delivers increasing ROE to its shareholders, its ROA and profit margin do not look promising.
- Positive increase in return on equity
- Unstable return on assets
- Unstable profit margin on sales
- As sales per coffee pounds sold stay relatively the same, the income per pounds sold varies from $0.25 to $0.47
- The year 2001 appears to be GM’s best performance and since then has financially declined
- GM makes frequent donations