Keio University

CALAMVS GLADIO FORTIOR 1858

慶應義塾大学ビジネス・スクール

Kataoka & Co. Ltd. (A)

One autumn, Kataoka & Co. Ltd., a leading company in sales of black tea, aimed at creating stable growth for the company by entering the bottled instant coffee market for the first time. This market was practically controlled by Nestlé and AGF.

At the time Kataoka entered the instant coffee market, the company had the largest manufacturing and sales position on the black tea market, outcompeting Lipton and Nittoh Black Tea with a large market share of about 40%. The company's Twining brand had a very strong brand image among consumers because of sophisticated advertisements and the image of the British royal family. As a result, Kataoka had well-established sales routes in major department stores, and almost any product handled by the company would be treated favorably on these routes, which was an advantage for Kataoka. This department store channel was particularly well-suited for the gift market and was a factor in securing a large market share, along with the fact that black tea itself makes a suitable gift. In recent years, however, the black tea market had shown virtually no growth. Clearly, signs of a maturing market had started appearing.

Kataoka had several motives for entering the instant coffee market. The main reasons were the following:

(1) Black tea and coffee were both similar luxury beverages. Besides the characteristics of the products, their advertisements, promotions, and distribution routes were almost the same. In addition, the company could use its distribution power, advertising power, and other marketing know-how that had been accumulated through black tea sales.

(2) The instant coffee market was about 10 times as large as the black tea market. While the black tea market was worth a little more than 30 billion yen, the instant coffee market was worth about 300 billion yen. This meant that Kataoka's sales in the black tea market, where it had a 40% share, would be roughly equivalent to sales in the instant coffee market with a 4% share, which was thought to be a sufficiently achievable figure based on the company's strengths.

* The original case in Japanese was prepared by Emeritus Professor Mitsuaki Shimaguchi based on publicly available materials, as the basis for a class discussion, rather than to illustrate effective or ineffective handling of an administrative situation. The translation was proofread by Emeritus Professor Mitsuaki Shimaguchi and Professor Akihiro Inoue.

The instant coffee market was dominated by Nestlé with a 72% market share, followed by AGF, a 50-50 joint venture of Ajinomoto and the U.S. company General Foods, with a 20% market share. These two players were competing fiercely against each other (See Table 1). Other brands such as Cresta and Kreis Cafe participated with a share of less than 1% each, but they were too small to compete. In the maturing instant coffee market, Nestlé and AGF were gradually shifting to higher-grade products, perhaps in order to secure sales in terms of cash volume while sales numbers was sluggish. In this market the traditional powdered product was being replaced by more real-coffee-bean-oriented freeze-dried product. As seen in AGF's Maxim and Nestlé's Nescafé Goldblend, as taste and flavor were improved, prices also rose to around 1,000 yen per 100 g.

Kataoka released its Astoria brand instant coffee. This was a freeze-dried, high-graded, bottled instant coffee that somewhat reflected the company's image in the black tea market as well as trends in the industry and demand. To get coffee of any higher grade than this would involve regular coffee roasted and ground directly from beans and prepared by consumers themselves using the drip method. Therefore, Astoria was of quite a high grade for instant coffee. Six kinds were available: "Mild" (1,000 yen/100 g), "High Roast" (1,300 yen/100 g), and "Rich" (1,500 yen/100 g); and similar to regular coffee, "Kilimanjaro," "Blue Mountain," and "Mocha." However, basically they all carried the unified Astoria brand name.

Question: Discuss the pros and cons of Kataoka's new entry to the bottled instant coffee market.

Table 1

Instant Coffee Brands and Market Share (at that time)

Nestlé (72%)		AGF (20%)
Nescafé Goldblend (30%)	↔ (Competing)	Maxim (6%)
		Yuban (2%)
Nescafé (41%)	↔ (Competing)	Maxwell Blendy (6%)
		Maxwell (5%)
Decaffeinated Market:		
Goldblend red label (–)	↔	J. JEY (1%)
Decafe (1%)		

Best Version 12.5 • EP100