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Kataoka & Co. Ltd. (B)

In the summer of last year Kataoka & Co. Ltd. released a stick type of instant coffee, which was the company's second product in the instant coffee market. In the previous year the company had already released six kinds of instant coffee in ordinary containers under the Astoria brand, which represented a full-scale entry into this market. After observing the overall market trend, however, the company discovered that Kreis and King Arthur, which were selling high-grade instant coffee in this market, were selling this stick type of product at relatively high prices of 260 to 300 yen for three packets. The company thought that with such high sales-prices, a large sales volume could not be expected. The expected high margin was attractive, however, so the company decided to launch this product.

Stick-type instant coffee contains coffee, powdered cream, and sugar in a sticklike packet; each ingredient makes up about one third of the contents. Cutting open the package, pouring the contents into a cup, and pouring on hot water, you can have a coffee immediately. This was part of the appeal of the product: convenience and immediacy. Especially because it is a freeze-dried type of instant coffee, the cream and sugar are included in one packet for a cup, so you can easily take it anywhere and drink it immediately whenever you like. This was a great advantage of the product.

A stick packet contains, on average, 1.7 g of freeze-dried coffee, 2.3 g of powdered cream, and 4.5 g of sugar. A set of three packets of this mix was sold for 260 yen. In comparison, the freeze-dried coffee in a 100 g bottle already on the market was sold for 1,000 to 1,500 yen, while Morinaga Milk Industry Co.'s Creap, which had the largest share of the powdered cream market, sold for 420 yen for a 190 g bottle, and sugar sold for around 300 yen per 1 kg.

Ordinary bottled instant coffee products were in fierce competition, and discounting was widely practiced at the distribution stage. Compared with those market prices, the stick-type products already on the market had quite higher retail prices for the same weight of product.

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* 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 company decided to use the same six kinds of freeze-dried coffee as in the Astoria brand, which was already on the market, for the stick-type products. Considering that the competing brands were sold at relatively high prices, the company decided to set quite high prices relative to instant coffee in ordinary containers. In other words, this stick type of coffee had a far higher margin than the coffee in ordinary containers. The company felt slightly uneasy about setting the prices so high, but thought they should dare to sell at this price. The price would of course be able to produce enough revenue for advertising promotion.

Question: Evaluate the appropriateness of the company's launch of its stick-type instant coffee.