How Marketing Mumbo Jumbo Can Help Poor Countries Grow

The Case of 100% Colombian Coffee

Master of Arts in Law and Diplomacy Thesis

Submitted by Rafael Martí

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Rafael Martí

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How marketing mumbo jumbo *can help poor countries grow: the case of 100% Colombian Coffee*

I dedicate this work to Howard Schultz, Chairman of Starbucks, for the many hours I spent reading and studying at the Starbucks shop in Somerville, Massachusetts. During my two years at Fletcher I enjoyed the Starbucks experience for only the cost of a tall cappuccino, and many times for free. As much as I admire his company, and although I am writing these very words at a Starbucks, as a fellow Latin American I can't wait to see Juan Valdez open his Davis Square branch.

Abstract

This work starts with an overview of the consequences of falling prices in manufactures for developing countries and the role marketing and country branding can play in promoting exports to high income countries, where differentiated products are sold with high margins. To understand how branding works, the second chapter presents a summary of scientific findings regarding the psychological dimension of branding, focusing on the role emotions play; it also analyses the main traits of today's branding. Building upon this framework, chapters III and IV, review the case of the 100% Colombian Coffee campaign, and examine its brand equity, history, and recent development. As a conclusion, some guidelines are given to poor countries in order to take advantage of marketing techniques when exporting to the US and Europe.

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When I first arrived to the US I bought a packet of T-shirts made in Honduras. The following year, I bought a second one, same brand-same price, only this time made in Egypt. Now, you can buy it made in Namibia. Why? globalization, of course. But what *in the world* has happened to make that possible?

It all started with technology. Thanks to innovation, between 1930 and 1990, average prices per mile of aerial transport shrank from 68 cents to 11, and the price of a three minutes call from London to New York contracted from 245 dollars to 3.32, making communications and transport more fluid. Then there is the internet traffic, which has been doubling every hundred days for the past few years. In 1993 there were fifty web sites in the world; by the end of decade, that number had surpassed five million. At the turn of the twenty – first century there were 610 billion email messages and 2.1 billion sites and the number of pages doubles every year since.

The plunging cost of computers has also helped. The price of a new computer has dropped by nearly a fifth every year since 1954. Computer power has doubled every eighteen months for the last thirty years and even more rapidly in recent times, and it now costs less than 1 % of what it did in the early 1970's. If the price of automobiles had fallen as quickly as the price of semiconductors, a car would cost 5$.[1]

[1] Telephone calls and aerial transport statistics come from Martin Wolf, "Mais porquoi cette haine des marchés*?*", *Le Monde diplomatique*, June 1997. For

These striking reductions in the prices of transport and communication, as well as the process of trade liberalization, have made possible to relocate resources and skills easily from one country to the other. To save some cents per unit of production in the face of borderless competition, entire value chains can be transferred with only one click from one continent to the other and back. Now more cars, refrigerators and TV sets are being produced in places like Costa Rica and Indonesia, which only exported bananas and rice a few decades ago.

This could sound as good news, except that producing manufactures is not the good business it used to be. Since the end of the World War II, the volume of manufactures produced in the developed world has increased threefold, while prices adjusted for inflation have not stopped falling: "the relative purchasing power of manufactured goods (…) has fallen by three quarters in the past 40 years".[2]

Manufacturing is going through the same process farming experienced after an increase in productivity. As a result, low income countries have witnessed how manufactures have enlarged the list of low margin products, which was the traditional realm of raw materials and food. For example, exports of manufactured goods as percentage of GDP in countries with low per capita income grew from 15 percent in 1980 to 45 percent in 2000. By the same token,

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internet traffic and the cost of computers see Joseph Nye, *The paradox of American power,* Oxford, 2002, p.42 & 43.

[2] "The next society", *The Economist*, November 1, 2001

the portion of manufactures in the total exports of middle income countries like Mexico or Poland has increased from 30 to more than 50 percent of GDP. [3]

One can trace this process back to the eighties recession, when big corporations - which were big because they owned factories and machines in order to produce goods - downsized, reengineered, streamlined and divested. More and more, these companies decided to subcontract their production processes to whichever developing country gave them better conditions, and focused in adding value downstream. Since products tend to be interchangeable, only the feelings that brands transmit remain a defining factor of differentiation.

These companies abandoned the nuts and bolts of production in the hands of contractors and entrenched themselves where the real money is: closer to the market. They switched from production of goods to management of brands, away from the liberalization process of goods and services spurred by Breton Woods. In this new model "whoever owns the least, has the fewest employees on the payroll and produces the most powerful images, as opposed to products, wins the race". In a world where more value comes from intangibles than from tangibles, the trick is not to manufacture products and advertise them, but rather "to buy them and 'brand' them". [4]

This process has not only commoditized manufactured goods, but has also raised a barrier between countries that manufacture on the one side and

[3] See Geoffrey Garrett, "Globalization's middle", *Foreign Affairs*, September – October 2004.
[4] Naomi Klein, *No logo*, Knopf, 2000.

countries that buy those products to brand them on the other. This makes perfect sense, since "selling products with well known names, rather than bulk commodities or generic goods, has long been a smart business to be in".[5] It is only natural for the international economy to reflect what has happened inside national economies during the last century and a half.

The other knowledge economy

Although we tend to equate globalization to economic interdependence, there is also a process of social and cultural globalization going on. This implies the "movement of ideas, information, images and people" that affects the "consciousness of individuals and their attitudes towards culture, politics and personal identity." [6] As a consequence, a thicker and quicker flow of information has minimized the differences in perceptions among people of geographically distant places.

We all know this is true only to a certain extent and that cultural particularities prevail, but multinational companies and their marketing agents do not seem to worry much about this exception. The global superstructure is the perfect place for branding and advertisement, and communication channels are the perfect tools to add the value that make them grow.

[5] Simon Anholt, *Brand New Justice*, Butterworth Heinemann, 2003.
[6] Robert Keohane and Joseph Nye Jr., "Globalization: what's new? What's not? (and so what?)", *Foreign Policy*, Spring 2000.

But what can poor nations do to counteract this? Not much. We may agree that globalization is not a constant process: After all, during the years that followed the 1929 crisis many countries decided to curb their economic interaction with the rest of the world. There have been periods of thick globalization in the past. Before 1914 Britain directed 9% of its GDP to other countries, twice as much as Japan and Germany did in the eighties. During *Pax Britannica*, Queen Victoria ruled over a global network through rails, telegraph wires and gold as a single international currency which crumbled thereafter.

We have to accept also that governments can intervene in those trends to some extent. In the thirties Italy and Germany thought autarky was the perfect state and worked towards it. After World War II, the Allies - or more precisely Roosevelt, Churchill and Keynes – established a series of committees to revamp globalization: the World Bank, the United Nations and the International Monetary Fund. If, God forbid, the world economy entered another recession in the near future, President Bush might not react in the same way. In fact, it would be interesting to gauge which consequences the so called War on Terror will bring to globalization in the long run.

This is to say that - assuming globalization could be somewhat attuned by governments - we have to accept that the governments of poor countries have minimal capabilities to do something about it. In fact, they are much better off trying to cope with it the best they can.

But how can countries take advantage of this cultural byproduct of globalization? If we were to see this global superstructure as the hard disc of a computer, which sections would countries and their products hold? That is, which are the representations of countries in the minds of consumers and how can they take advantage of these representations?

As in many other ways, developing countries are not better placed than their rich counterparts. We all know England has an advantage in heritage and class, France in quality living and *chic*, Germany in technology and quality, and Switzerland in trustworthiness and methodical precision. As a consequence, Burberry and Aquascutum are British; Chanel and Veuve Clicot French; BMW, Mercedes and Porsche German, and Sandoz and Vacheron Constantin Swiss. This is so because countries are also brands - among other things -, and just as companies do, they own brand equity.[7] It is only logical to treat this factor as a competitive advantage in global markets. Although they only exist in our minds, these turfs should be considered as impenetrable as the territories of those countries.

Italy, Spain, and even Mexico make excellent wines, but French claret will always be the best – and only a negligible group of pundits can distinguish a Bordeaux from a Rioja in a blind test. Whereas olive oil has been made since

[7] David A. Aaker's definition of brand equity: "a set of assets (and liabilities) linked to a brand's name and symbol that adds to (or subtracts from) the value provided by a product or service to a firm and/or that firm's customers. The major asset categories are: 1. Brand name awareness, 2. Brand loyalty, 3. Perceived quality, 4. Brand associations." See *Building strong brands*, Free Press, 1996.

ancient times in more or less the same way from more or less the same olives in every Mediterranean country from Portugal to Turkey, Italian olive oil will always be premium. Why is it so? Why do other exporting countries have to feign Italian brands in order to sell? Whatever that is, it is so strong that studies have shown that the relative importance of origin "is often more influential than price, dealer reputation or even brand name".[8]

What can countries do to enter this club? Is it possible? Although wine, olive oil and expensive cars are categories already taken - just as Trafalgar Square and Montmartre - there are other products still available. Some Colombian entrepreneurs thought along the same lines several decades ago and succeeded in entering the club. In the early fifties, the best wines were French as well, the best cars German and the best watches Swiss, but the best coffee was not forcefully Colombian back then. Coffee originated in Eritrea, it is produced in countries as diverse as Malawi, Thailand, India, and Cuba which have excellent coffee, just as Spain and Portugal produce excellent olive oil. What can countries do to position their national produce brands in the global superstructure? In other words: why is Juan Valdez Colombian and not Mexican?

Although I will recount the steps taken to build the 100% Colombian Coffee brand in the last part of this thesis, I will start by analyzing the value that seduction has in the international system, particularly for poor countries. Later

[8] See Nicolas Papadopoulos and Louise Heslop, "Country equity and country branding: Problems and prospects", *The Journal of Brand Management*, April 2002, vol. 9, no. 4-5.

on I will describe the mental mechanisms that give birth to brands, since it is inside the consumer's mind where branding takes place.

I. Remembering Madison: the soft power of country branding

Simon Anholt, the country branding guru, wrote – among many other interesting things – that country branding is pure soft power, and he is right. While hard power means military capabilities and money, soft power means all the rest: "it arises from a country's culture, political ideals and policies".[9] Joseph Nye, who coined the concept of soft power, describes it this way: "If I am persuaded to go along with your purposes without any explicit threat or exchange taking place – in short, if my behavior is determined by an observable but intangible attraction – soft power is at work".[10]

While some countries are not only small but also poor and their allotment of hard power is minimal, they still have a message to convey. Albeit they cannot force rich and powerful countries, they can seduce their citizens in order to advance their own national interests, and some times more effectively so. This is why branding and soft power belong together; let's be reminded that globalization is the realm not only of Wall Street and Silicon Valley, but also of Madison Avenue. We tend to imagine the global flow of information as zipped

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[9] Simon Anholt, *Op.cit.*

[10] Joseph S. Nye, Jr. *Soft Power*, Public Affairs, 2004.

software blueprints and we forget the flows of persuasion that crisscross the planet in search of mind (and market) share.

As they do with a myriad of products and services daily, marketers find room for differentiation in every country. No matter how underdeveloped a country is, it can always tap its values, its traditions, and its history – all of which make it different from the rest of the world. Furthermore, the images that countries can use are not only related to their own history and reality, but to those clichés that hide inside the minds of consumers and "because we believe in the country images, we also believe that products possess similar qualities to the countries they come from".[11] In that sense, there is a virtuous cycle involving a country's brand and its products.

But countries with less than optimal images should not fret: "If people think anything about your country at all, you're very lucky, because it means that you register on their radar screens, you exist and there is a basis of knowledge or belief that you can work from. There is no doubt that it's a much harder work to start a ball rolling from standstill than to change its direction". In other words: it's better to have a bad reputation than to have no reputation at all.

These words should bring comfort to many a developing nation, since having a reputation for corruption, little economic growth, low environmental and labor standards, and fragile rule of law, for example, are all part of the definition of an developing country. Besides, asking Bolivia to attain democracy, eradicate

[11] Simon Anholt, *Op.cit.*

drug trafficking, and guarantee basic welfare to its citizens in order to spur exports and attract foreign investment is like asking a drug addict to quit heroine because his image is at risk. If you have to become a developed country in order to get a bigger share of Western consumer's spending, country branding is not at work. Those countries should find easier and quicker ways to attract foreign currency. As the case of Colombia proves, a country can improve the image its products have while struggling to develop.

Since brands are self-sustainable, do not require the over-exploitation of natural resources, are not based upon underpaid labor, and - if carefully maintained and strengthened - can remain forever in the minds of dollar loaded consumers, they represent a very good option for developing nations. In fact, exoticism is becoming ever more appealing. The trick would be to transmit it to their national products: these nations have to be able to convey the "message" their cultures have into the goods and services they sell. Much in the same way as Caterpillar was able to boil down the image its vehicles have into sneakers, these countries face the challenge of adding its messages into an array of products and services as vast as possible. France can sell refined wines, refined dresses, refined hotel rooms … and even refined culture and politicians. Focusing on the cultural "equity" of a country has many advantages:

> "the cultural aspect of national image is irreplaceable and uncopiable because it is uniquely linked to the country itself; it is reassuring because it links the country's past with its present; it is enriching because it deals with non-commercial activities; and it is

dignifying because it shows the spiritual and intellectual qualities of the country's people and institutions"[12]

At the top of the pyramid

The beginning of this century is a particularly good moment to focus on the Western customer through branding, and particularly on the US customer. The high growth the country experienced during the nineties enriched even more an already moneyed cohort of buyers. As *The Economist* put it last year: "Since 1995 almost 60% of the cumulative growth in world output has come from America", which has come from almost doubling US' share of world GDP. "America's disproportionate contribution to global growth reflects an extraordinary rise in American spending. Domestic demand in America has risen on average, by 3.7 a year since 1995, twice the pace of the rest of the world"[13]. In fact, it is not an exaggeration to say that after the 2000 stock market crash the world economy is running because US consumers have been borrowing against their homes, and spending lavishly – thank God.

This is not only a US middle class affair: the nineties inherited the world with a thriving masse of millionaires. From *The Economist* again: "The world has 7.2 m people with investable assets of at least $1m, up from 5.2 in 1997. Those 7.2m dollar millionaires control about a third of the world ´s wealth. According to

[12] Simon Anholt, *Foreword*, *Journal of Brand Management,* vol.9, no.4 -5, April 2002.
[13] *The Economist*, "Flying on one engine", September 18, 2003

Forbes magazine's "rich list", there are also 425 billionaires, 274 of them in America alone". [14]

The message for producers of staples is that there is an increasing segment of people whose income and equity allows them to satisfy an "infinite supply of wants". They are all piled up at the top of Maslow's pyramid, and they would buy anything from you, provided you have the right branding strategy (if you think I am wrong just remind yourself of the Hummer).

That is why branding makes sense: brands "continue to exist and generate huge profits because that is the only way in which consumers who own everything can be stimulated to carry on consuming as if they still needed things".[15] The trick is to understand and seduce consumers, and to this topic I will turn now.

II. <u>Looking inside our heads (where branding takes place anyway)</u>

As much as we would like it to be otherwise, we consumers do not think straight. That means we *do not* "consciously contemplate the individual and relative values of an object's attributes and the probability that it actualizes the assigned values, and then process this information in some logical way to arrive at a judgment". In other words: Descartes was all wrong, and it seems that the thinking process is much more "organic", it involves our "habits and other

[14] *The Economist*, "The new wealth of nations", June 14, 2001
[15] Nicolas Papadopoulos and Louise Heslop, *Op.cit.*

unconscious forces, and is greatly influenced by the consumer's social and physical context".[16]

If the contrary were true, if we were conscious enough as to make choices among products on the basis of price and attributes alone, cookies packages would only show the nutritional content table and the price tag. It has also been said that brands are useful because they are a guarantee of quality. While that seems logical, it is only half true: If that were the case, brands would not need to evolve over time, nor include characters or images. What is Aunt Jemima's role if we only buy flour because of a certain quality-price ratio? The main role of brands is not to help us choose rationally among two identical products, it is to tap into our emotions, which "give each alternative a value and, thereby, provide a yardstick to judge and to select among alternatives".

The real problem is to convince managers about the role emotions play, not to try to gauge which - reason or emotion - is more important when making decisions. In fact "reason and emotion are not opposites; they are partners who occasionally disagree but depend on one another for success." It has been observed among people who have suffered damage in the portions of the brains dedicated to emotions that they can not make decisions. As we will see, it is much easier to store an idea that has an emotional content that one that lacks it. Brands convey this emotional ingredient that gives a special meaning to a mere economic transaction.

[16] Gerald Zaltman, *How customers think*, Harvard Business School Press, 2003.

This emotional content of brands belongs to the unconscious, where ninety-five percent of whatever goes through our brains takes place. Apparently, conscience's main role is to give a logical meaning to whatever makes it to the conscious surface from the deepness of our unconscious. But who are the creatures that inhabit this realm of the unconscious? Is it possible for marketers to make some sense of this magma of "ever-changing memories, metaphors, images, sensations, and stories that all interact with one another in complex ways to shape decisions and behavior"?

This density and convolution turn our minds into birds difficult to capture, let alone to design or transform. Metaphorically speaking, our brain can hold only a few of these beings at the same time, it is a selective organ, and the best we can hope is to enter the system through shortcuts. The human brain designed metaphor and stories as tools to store retrievable information from deep below the conscious surface, and to be able to retrieve it later.

We use metaphors in every language and situation by representing something in the way we represent something else, to understand and communicate. Metaphors work to replicate meaning, and "perceive the world".[17] They help us understand our experience and design our future: "metaphors are also the engine of imagination". Marketers know that, and brand their products using metaphors:

[17] Idem, pp. 38 – 39.

Stories are also mimetic to brands, to the point where, to be successful, every brand has to be built upon either a story or an archetype. These figures - such as the magician, the hero or the villain - are universal in the sense that they appear "in the past collective experience and are present in the individual unconscious".[18] Archetypes are metaphors embodied in a particular character repeated in many cultures all over the world across generations. The stories they take part in are also part of the imaginary of humanity, and can be found in every culture with only minor adaptations.

Metaphors and stories are useful to entry the system and are easy to retrieve, but how can we assure brands remain in the brain in order to be retrieved? Does our memory really work like a hard disk? If that were the case we would only need the right retrieval tools, and these would enable us to list – for example – all the car plates we have seen in our lives. But that is not very useful, and computer geeks know it: that's why they recommend we erase those documents we don't need. It seems the brain works in the same ways.[19]

Different molecular phenomena occur at each stage: less complex feats take place in the short term than in the intermediate and long term memory. In short term memory, the cells modify certain proteins, while at the intermediate level they *produce* proteins. When we don't need to keep a specific thought, the cells involved in that process stop "working", and that is why it fades away and

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[18] *The American Heritage Dictionary of the English Language*, fourth edition, 2000.
[19] *The Economist*, "Memory building", August 27, 1998.

we forget it. At the more complex level, the long term memory, the brain “switches” new genes to produce a different kind of proteins. As a result, in this level the physical structure of the brain changes and new connections of the brain are formed. That is why we do not forget certain things; they are printed forever in our memory code.

For marketers, the most interesting question to answer is how the brain decides which thoughts are worth keeping in the long term memory. It has been shown that when neurotransmitters – which are connectors among cells – are exposed to certain substances on a long single occasion, changes in cells are temporary. Nonetheless, when cells are exposed to the same substances in shorter pulses but repeatedly in intervals of several minutes, the levels of a particular kind of molecule remain high. This is observable even after three hours without further stimulus, so it has been concluded that repetition is at least one of the ways the brain uses to discriminate and to choose what to store in long term memory. If something happens only once, it is probably not worth keeping because most probably it won’t happen again. When there is a trend of events, it is statistically sound to assume it will continue, so we will better off if we prepare.

This is why it is much more efficient to study for an exam during the entire term for short periods than to spend one entire day cramming before the test. And, most relevantly, this is why one of the mantras of every marketer is repetition, constancy. The more often the brain is exposed to a certain metaphor or image, the better, and once a brand has entered this territory, it certainly has an advantage over its competitors. Just as it has happened in many experiments of the placebo effect, in which patients were told they were swallowing analgesics - while in fact they were being given sugar pills – experienced pain relief, buying one's favorite brand guarantees personal satisfaction. Our mind does not function in a void: it uses stored experience, and sometimes it works on its own. A firemen story analyzed in *Sources of power, how people make decisions*, comes to mind. [20]

> It is a simple house fire in a one-story house in a residential neighborhood. The fire is in the back, in the kitchen area. The lieutenant leads his hose crew into the building, to the back, to spray water on the fire, but the fire just roars back at them. "Odd", he thinks. The water should have more of an impact. They try dousing it again, and get the same results. They retreat a few steps to regroup. Then the lieutenant starts to feel as if something is not right. He doesn't have any clues; he just doesn't feel right about being in that house, so he orders his men out of the building – a perfectly standard building with nothing out of the ordinary. As soon as his men leave the building, the floor where they had been standing collapses. Had they been inside, they would have plunged into the fire below.

What happened? Does the commander have a sixth sense? Probably he just made use, unconsciously, of his experience. He did not know the house had

[20] Gary Klein, *Sources of power, how people make decisions*, The MIT Press, 1999.

a basement, nor did he know that the fire had originated there, just underneath their feet. Although, he noticed the high temperature of the living room and that the fire was not responding normally. His unconscious analyzed the scenery, concluded that something was wrong and that he and his squad should exit the house ASAP. But he did not need to carry out a formal analysis of the situation in order to do so; his unconscious did the job for him drawing from the experience gained in other similar situations.

The same processes happen in the marketplace, where we make purchase decisions "more efficiently and effectively than we could if we had to consciously process every relevant factor".[21]

Repetition is not the only way our brain uses to guarantee a pass to long term memory. According to the "levels of processing" approach …

> we analyze stimuli at many different levels. At shallow levels, we notice physical or sensory characteristics, such as the color of autumn leaves. At deeper levels, we analyze the meaning of those physical or sensory characteristics. For example, if you live in New England, then seeing bright orange leaves might remind you that summer is coming to an end. If we process a cue at a shallow level, then the resulting engram won't last long. If we process a stimulus deeply, then the engram will endure longer and we'll remember it more easily.[22]

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[21] Gerald Zaltman, *Op.cit*.

[22] *Idem*. An engram is "a physical alteration thought to occur in living neural tissue in response to stimuli, posited as an explanation for memory", *The American Heritage Dictionary of the English Language*, 2000.

When a memory is encoded in this way, it is easier for the brain to retrieve it once it relates it to new information, and it is also easier to enrich that memory. In fact, while we retrieve a stored memory, we are already transforming it into something new, this is why memory is constantly evolving, and is malleable.

Feelings play a special role in this process. To begin with "everyday experience and laboratory studies reveal that emotionally charged incidents are better remembered than nonemotional events".[23] A memory has better chances of staying in the system if we direct our attention to it, and emotions have the ability to interest us, much more than technical information, for example.

If we write the word "yellow" in a piece of yellow paper, "red" in a piece of blue color and "green" in a piece of white paper, for example, and we try to relate what we wrote to the color of the paper in which we wrote it, it will take more time to remember blue and white than yellow, because our mind will spend time analyzing what is the meaning of writing "green" and "red" in pieces of a color that do not match. If we write "happiness", "sadness", or a neutral word like "wet", we will see it takes more time to relate the possible negative words to the color of the piece of paper they are written on. This is so because emotional words absorb our attention.

That is not the only good news for marketers. Until a few decades ago, human beings tended to act according to tradition, so we acted pretty much the

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[23] Daniel L. Shacter, *The seven sins of memory*, Houghton Mifflin, 2001.

way our parents and grandparents did. Nowadays, we are much more influenced by our peers than by our parents. As a result "we wake up every day in a world where we aren't quite sure how to live",[24] and we covet for someone to tell us what is the right food to eat, the right car to drive and what movie to watch, and more importantly, we long for answers to more fundamental questions, such as: How to be a man, a spouse or a parent?

In the past, brands were designed under the assumption that people knew what they wanted to be already, and products only helped them to fulfill that goal, they were only paraphernalia designed to equip a known character. Nowadays, change patterns are so overwhelming that this no longer applies: "we change careers five times in a lifetime and change social relationships, homes and social roles perhaps even more often. We are constantly struggling to find meaningful ways to live. *Brands can now affect consumers as surrogate traditions*". [25]

For present generations, brands are increasingly important, and do blend with personalities, "they are the meaning itself". While in the past consumers bought products as mere gadgets to refine their characters, in the present they adopt those brands that propose a new template more convincingly. Just read these random quotes from two magazines' advertisements, one from 1985 and one from 2004.

[24] Gerald Zaltman, *Op.cit*, p. 227
[25] Gerald Zaltman, *Op.cit*, p. 229

October, 2004, *GQ*

Nowadays, brands tell you who you are and what to do …

Cadillac Status without the quo	**Levi's** A style for every story	**Concord** Style defined
Nissan Path Finder Shift adventure	**Movado** The art of time	**Citi (Citibank)** Live richly
Adidas Unleash it	**Toyota** Moving forward	**Hyundai** Live more. Yawn less
Remy Martin Feel more	**Timberland** Make it better	**Mont Blanc Watches** Time is precious. Use it wisely
Seiko It's not your clothes. It's not your handwriting. It's not your TV shows. It's your watch that tells more about who you are.	**Swiss Army** Our passion is human understanding. Our art is beautiful function. Made like you	**Cointreau** Good things come to those who taste
Baume & Mercier Time is mine	**Salem** Stir the senses	**Nike** Just do it

February 1985, *Time Magazine*.

Remember when brands used to talk more about their own products and less about us consumers?

Magnavox No other big screen gives you impact like this	**Westin Hotel** At the Westin, Chicago, our kitchen never closes	**Merit Ultra Light** A world of flavor in an ultra light
Kent It's the taste that counts	**NorthWest Orient** The world is going our way	**People Express** Fly Smart
Smith Corona The end of the misspelled werd	**Rolls Royce** Simply the best motor car in the world	**Ford** Mercury. The shape you want to be in
Ford Have you heard a Thunderbird sound system lately?	**IBM** Discover the most powerful personal computer IBM has ever made	**Zenith** Our new 27-inch televisions won't crowd you

After stating why marketing is a good place for poor countries to be, and skewing how marketers act in the minds of their consumers, I will explain why the coffee market is a bad place to be in, and recount Colombia's way of countering it.

III. Colombian coffee and the perils of being a commodity

Coffee is one of the most traded commodities in the developing world, second only to petroleum. Here are some facts difficult to avoid. [26]

Demand for coffee is price-inelastic. This means that a 10 percent increase in price will lead to only a 2 to 4 percent decrease in the quantity demanded, and that if prices were to increase – to a certain point - people would still keep buying coffee. As coffee is a main source of caffeine, which not only causes addiction, but helps people work better, they would rather pay a little more than face abstinence.[27]

Production of coffee is both price-elastic and price-inelastic. In the short run, coffee production is elastic. If demand for coffee increases, growers can put more fertilizer in their trees and take better care of them so they produce more

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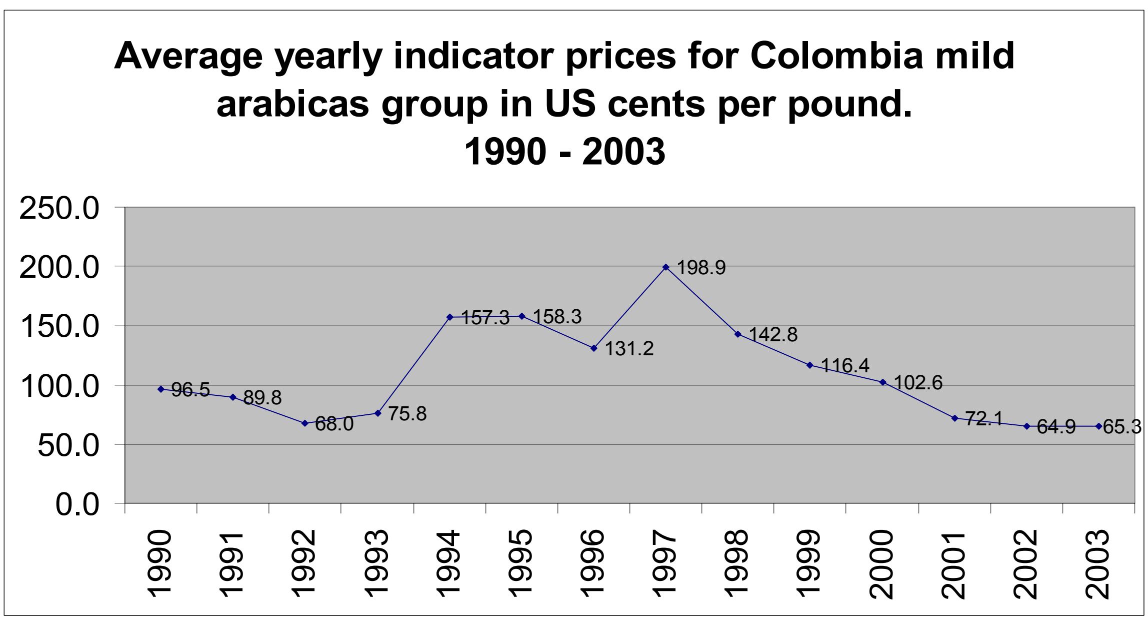
[26] See the appendix in Robert H. Bates, *Open-economy politics: The political economy of the world coffee trade,* Princeton University Press, 1997.

[27] Indeed, "caffeine is the most widely taken psychoactive drug on earth, and coffee is its foremost delivery system". Mark Pendergrast, *Uncommon grounds: the history of coffee and how it transformed our world*, Basic Books, 1999.

grains so they can sell more coffee. Nevertheless, in periods of one to three years, this can not be done because it takes several years before a newly planted tree reaches full production. If prices decrease, growers tend not to uproot their trees. This causes a lag between demand and offer, so present quantities are defined by past demand conditions.

As a consequence of these two conditions, when prices rise demand does not lessen, nor trees multiply immediately, so prices stay high for a period of two years or so. When these high levels cause more plantings, prices fall. Demand is not responsive to changes in prices, and customers tend not to drink more coffee when prices are low; since growers tend not to burn their newly planted trees, the markets enter an expanded period of low prices. This graph depicts the variability of Colombian coffee prices.



Source: International Coffee Organization

Each country has responded differently to this structural situation, either by designing economic policies and establishing national coffee institutions or by joining other exporters in production limiting agreements. The International Coffee Organization - an OPEC-like organization established at the beginning of the sixties and includes consumer and producer countries – has been the most widely known intent to limit production through a quota system. The Colombian case is quite unique, since its growers organized themselves into a monster union that almost functions as a state within a state.[28]

The mother of Juan Valdez

At the beginning of the last century, after Brazil, the main coffee producer throughout history, decided to launch a campaign of "valorization" of the commodity, prices soared the world over. Colombian production rose from 600,000 bags in 1906 to 10,000,000 in 1909. During the twenties, this process was supported by a strong infusion of foreign private capital, which rose more than eight times. The money United States paid to Colombia as part of the negotiations for the Panama Canal was directed to spur the coffee boom as well. The opening of the canal in 1915, and the government investment in railroads, helped lower transport costs and linked the Western part of the country to world markets.

[28] Robert H. Bates, *Op.cit*, p.27. See the whole third chapter.

Coffee prices doubled in 1912 and 1913, causing a labor shortage and unionization, and big plantations lost leverage to the point that estates fragmented and small properties throve.[29] The coffee revolution was so widespread that Colombia became a "peasant-based, smallholder coffee economy", which led to the creation of the FNC, or Federación Nacional de Cafeteros, in 1927. With over half a million members in a country with 42 million total, this cooperative has financed 100% Café de Colombia campaign from the start. To be a member of this mass organization, you only have to be a coffee grower, and size has never mattered in becoming a member. [30]

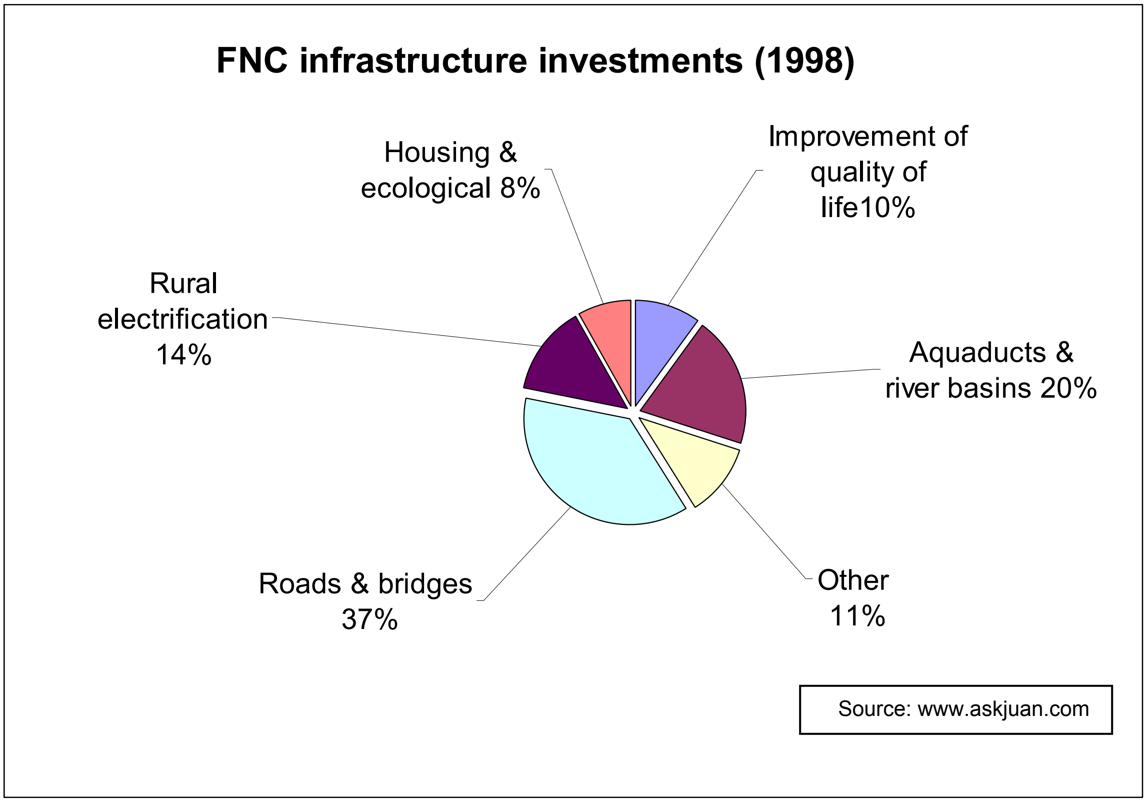
Local FNC leaders are chosen by ballot, but the number of representatives each local cell sends to a Coffee Congress depends on the percentage it has in the national harvest. The bigger your crop, the more voting power you have. In terms of financing, an agreement with the national government has provided the Federación with steady funding. Since its members were poor and had little incentives in paying its contribution to a giant organization, the FNC asked the government to collect its fees as an export tax without putting a nickel from the public budget. This single aspect of the Federación management is at the basis of its marketing success: a continuous and non-governmental source of income

[29] This remains true today: an average coffee plantation measures 3.75 acres.
[30] In 1999, only 636 farms were larger than 100 acres, or 40 hectares. Lora Nelson, *The 100% Colombian Coffee Book*, DDB Worldwide Marketing, 1999, p. 29. This book was Publisher by DDB, and recounts the marketing history of Juan Valdez and 100% Colombian Coffee brands.

to pay expensive international advertising and marketing campaigns during several decades.

The role of FNC in Colombia's development during almost 80 years can hardly be exaggerated. With more than half a million members and presence in half of Colombia´s municipalities, it serves a population of four million, which is 10% of the country's population. The Federación guarantees minimum prices for coffee crops; advises cafeteros on harvesting and processing best practices; has one of the world's prime coffee research centers; builds warehouses, roads and dams; counsels its members on how to get public health; runs clinics and even owns manufacturing companies to diversify its income.[31] The following graph divides FNC's infrastructure by area. Unlike the troublesome history of Colombia, the FNC had only four presidents from 1927 until 2004, benefiting from long term planning and management stability.

[31] See: http://www.askjuan.com



In addition to its social role, the FNC has been interested in marketing since the first day. A 1930 report states its project of a world advertising campaign around the slogan: "Buy Colombian when buying coffee". Contracts with agents in the main European cities were signed, and offices in London and New York were opened to analyze demand by segment. Besides investing in warehouses and transport, the Federación had a clear interest in advancing the standing of Colombian coffee, and was given the power of making his members comply with its regulations.

This effort was built upon certain features that make Colombian coffee a high quality beverage: the chemistry of the soil, geographical conditions – both high altitude and the best location vis-á-vis the Equator – make year-round harvest possible. As a consequence, consumers in Europe and the US perceive more homogeneity in Colombian coffee than they do in Brazilian coffee, for example. As it happens often with successful marketing campaigns, 100% Colombian Coffee started with a good product.

In addition, distinct geographic conditions make Colombia a real coffee puzzle, and the perfect environment for branding by regions, and for cheating as well. As some regions provided coffee of higher grading than others, some growers "disguised" their shipping under more popular brands, while others transported their harvest to regions with a better perception to process them. To counter this, and to protect the international perception of Colombian coffee, the Federación established a compliance force to guarantee homogeneity and the region of origin rule. In addition, there has always been an interest in growing Arabica trees only, and to process the grains always in the same way.

Despite its marketing and quality efforts, FNC had not been very successful in winning the consumer's recognition until the 1960's. In 1959, when Juan Valdez campaign was created, although 77% of Colombian coffee went to the US, only 4% of its consumers knew Colombia produced coffee; Brazil monopolized consumers' awareness in terms of coffee production.[32] To make things worse, during that time international coffee markets were enduring one of its chronic downturns. Aturo Gómez, the FNC general manager, came up with

[32] Rohit Despandé, *Café de Colombia*, HBS case number 9 – 502 -024

the idea of differentiating coffee to increase demand and prices, and retained DDB, or Doyle Dane Bernbach, an advertising agency in New York, to device and manage a new campaign. The main character of this effort, the mustachioed Juan Valdez, does not represent a big effort of advertising creativity. Indeed, his creators only created a prototype of the average Colombian coffee grower and his entourage. In fact, José Duval, the Cuban actor chosen to be Juan Valdez was later replaced by Carlos Sánchez, who is a true *cafetero* from Antioquia.[33] But what are the main traits of this character? What is the story he conveys?

Juan is a simple man who works with his own hands because, just as in the case of wine grapes, coffee beans have to be harvested manually in order to get a quality coffee. At the beginning, he taught coffee consumers about the land where Colombian coffee was grown, about its volcanic soil, the shade its trees provided to coffee plants, and how its fellow cafeteros were instructed from childhood on how to plant and crop coffee. Juan Valdez not only put a face to a tin can, he narrated a story about a specific method of production, differentiating Colombian coffee from the rest.

While setting the blueprints of this campaign, its creators tapped into an archetype: the countryman, the man down to earth, whose life is dictated by the rhythm of seasons and remains untouched by the frenzy of civilization. His product is always made the right way, bypassing the urgency of modernity; he has time on his side. His story was about coming to the origins, about what we

[33] Lora Nelson, *Op.cit.*

used to be and we are not anymore; he is reminding us of something important we have lost: "he was the epitome, honor, and consistency. Always humble, never flashy, Juan's positive attributes mirrored those of the product he was helping to market." [34]

Five months after the campaign started, tree times more consumers identified Colombian coffee as the best in the world, and only a few years later the FNC claimed that its brand was sold two and a half times more than its category and that buyers paid a 60% price premium. The consequences for the FNC members in terms of income were tremendous: "for each penny increase in the premium the global trade is willing to pay for Colombian coffee, the collective coffee growers in Colombia roughly made fifteen million more".[35]

DDB was aware that its act had to evolve in order to secure its place in the consumers' mind. While remaining a cafetero, our archetype became adventurous and took some swings. You could see him, for example, as a strong man with the legend: "The man who carried 40 trillion beans to America", or taking a tan in swimsuit with his faithful mule Conchita stating: "They have earned it". When there was not much else to say about Colombian volcanic soil and national traditions, Juan's managers used humor – the fragile tread that links what is possible with what is impossible – to revamp his position into the consumer´s minds.

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[34] *Idem.*
[35] *Idem.*

After more than twenty years of continuous exposure, this Juan Valdez with a twist was sent for a series of sabbaticals – albeit he always endorsed each add with his pyramidal imprint -. During the Reagan era, big money was back, and ponchos became so seventies. Consequently, the campaign entered a status minded era; this was easily done since Colombian coffee was already top of the line. In these new group of adds coffee was equaled to a Picasso, a southern Mansion like Tara from *Gone with the* wind and Swiss gold ounces. It appeared as a "liquid asset" besides the Wall Street Journal quotes, Juan was replaced by haughty waiters in jackets, and his mountainous farm by the Earl of Pembroke Wilton House Double Cube Room and several oak wrapped and dim lighted libraries.

The next stage of the campaign was aimed at expressing to which extent people go to drink their favorite coffee. You could see, for example, a leaning boat with the legend: "Colombian coffee is now being served in the starboard lounge" or a jet taking a u-turn with this one: "Captain, we forgot the Colombian coffee". These extreme illustrations of demand "transcend geographic and cultural boundaries, making the campaign's creative product easier to use globally". In order to reach other countries' audiences one just has to translate the adds: this kind of humor is generally borderless.

The *transport adds* were replaced later by the *logo adds*, in which Juan Valdez' and his mule Conchita's emblem appeared as a crossword, imprinted in Keops' pyramids, on the moons surface or a cow's back, just adding to this simple model of retrieval by surprise. In all of them, Juan was at the backstage, reminding the customer of his cafetero message, and the value of Colombian coffee.

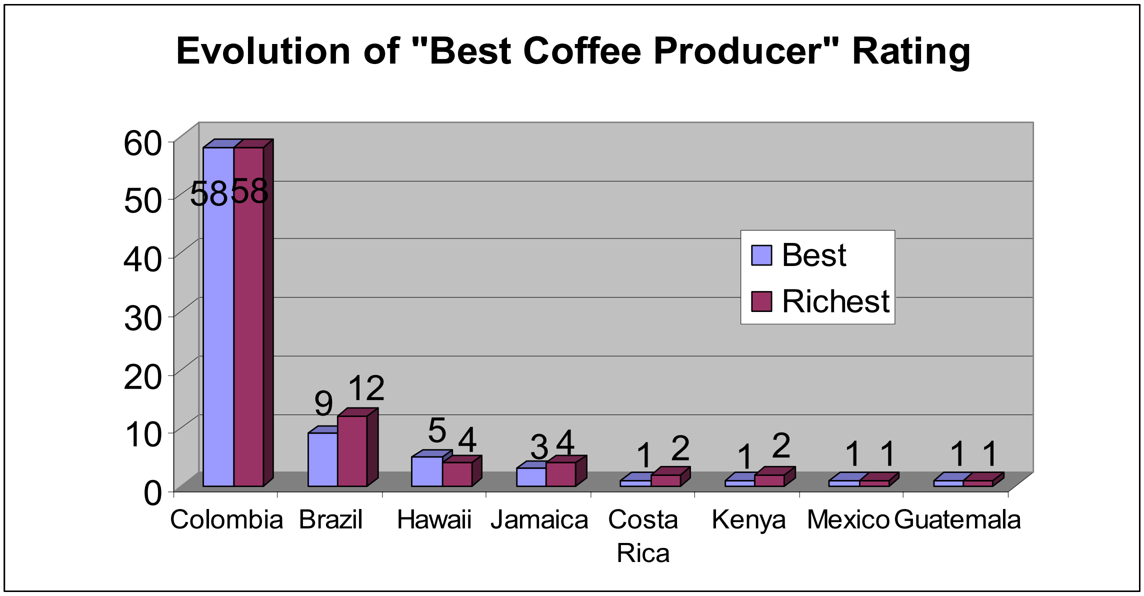
The results of this campaign speak for themselves.

2000 Logo study – Roper Starch Worldwide [36]

Brands	Logo association	Logo identification
Quaker oats	94	77
CBS	90	65
Volkswagen	90	84
100% Colombian Coffee	***85***	***53***
Nike	84	79
Michelin	73	49
Prudential	72	4
United Diary Association	68	4
AT & T	62	34
Woolmark	40	13
Starbucks	33	19
Continental	32	8

Quoted in Rohit Deshpandé, *Café de Colombia*, HBS case number 9 – 502 -024

[36] In the first test, logo association, surveyors asked respondents to associate each logo with one of the brands. In the second they were told to identify the logos and were not given more information.



This Awareness and Attitudes Tracking study is performed every year on a sample of 700 female coffee drinkers. Quoted in Rohit Deshpandé, *Café de Colombia*, HBS case number 9 – 502 -024

These awareness and preference levels translated into higher prices for Colombian coffee in the US and many European countries.[37] Between 1981 and 2000 Colombian coffee prices were $9.14 higher, on average, than "other milds" varieties prices. During that same period, the difference vis-á-vis the International Coffee Composite amounted to $26.34 dollars.

But what is the relationship between this tangible consequence of a marketing campaign based – to a large extent - upon the national image of a country and the reputation that country has in the media?

While coffee drinkers in the US or Belgium were buying Juan Valdez' coffee and paying a premium for it, Colombia was going through a bitter period. In the seventies, marihuana dealers began trafficking with cocaine from Peru and

[37] To have a global brand has many advantages. See David A. Aaker, "The lure of global branding", *Harvard Business Review*, November – December 1999.

Bolivia, turning into mafia-like groups – the so called drug cartels of Medellín and Cali. These evolved from mere intermediaries into producers of cocaine, which became one of Colombia's main export products.

The income generated by the drug industry financed to three armed groups: the Revolutionary Armed Forces of Colombia (FARC) and the smaller National Liberation Army (ELN) – both an inheritance of the 60's guerrilla cells – and, on the right, groups of paramilitary who have taken justice into their own hands and organized themselves around the Self-Defense Forces of Colombia (AUC) which has 30,000 fighters. The government has been unable to manage conflict among these groups and its "writ runs over only about half of this vast country – though that half includes the cities, where most Colombians live". [38]

This has produced sad statistics for the country's image: the murder rate is the highest in the world, as well as kidnaps. In 2001, there were ten kidnaps recorded by the police every day, six of which were guerrilla related.

The contrast between the measured brand equity of Colombian coffee, and the less than optimal image the country has, reinforces the findings of a study that concluded that "buyers distinguish between national and product images".[39] This implies that national campaigns to enhance a country's image will not forcefully result in better sales of that country's products over time, and that national products campaign – though based upon a country's *personality* and history – are not affected by the problems that country faces. We might be

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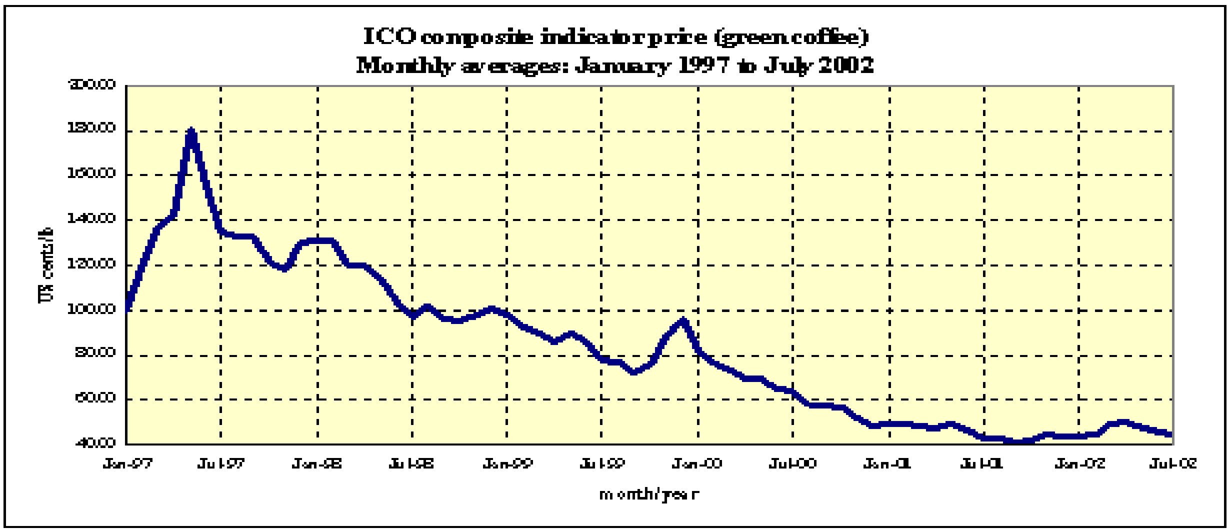
[38] *The Economist*, "Drugs, war and democracy", April 19, 2001.
[39] Nicolas Papadopoulos and Louise Heslop, *Op.cit.*, p.299.

talking of uncorrelated phenomena, which is good news for those developing countries which are still going through periods of change, that is most of them.

IV. <u>The midlife crisis of an icon</u>



Source: "The coffee crisis", International Coffee Organization

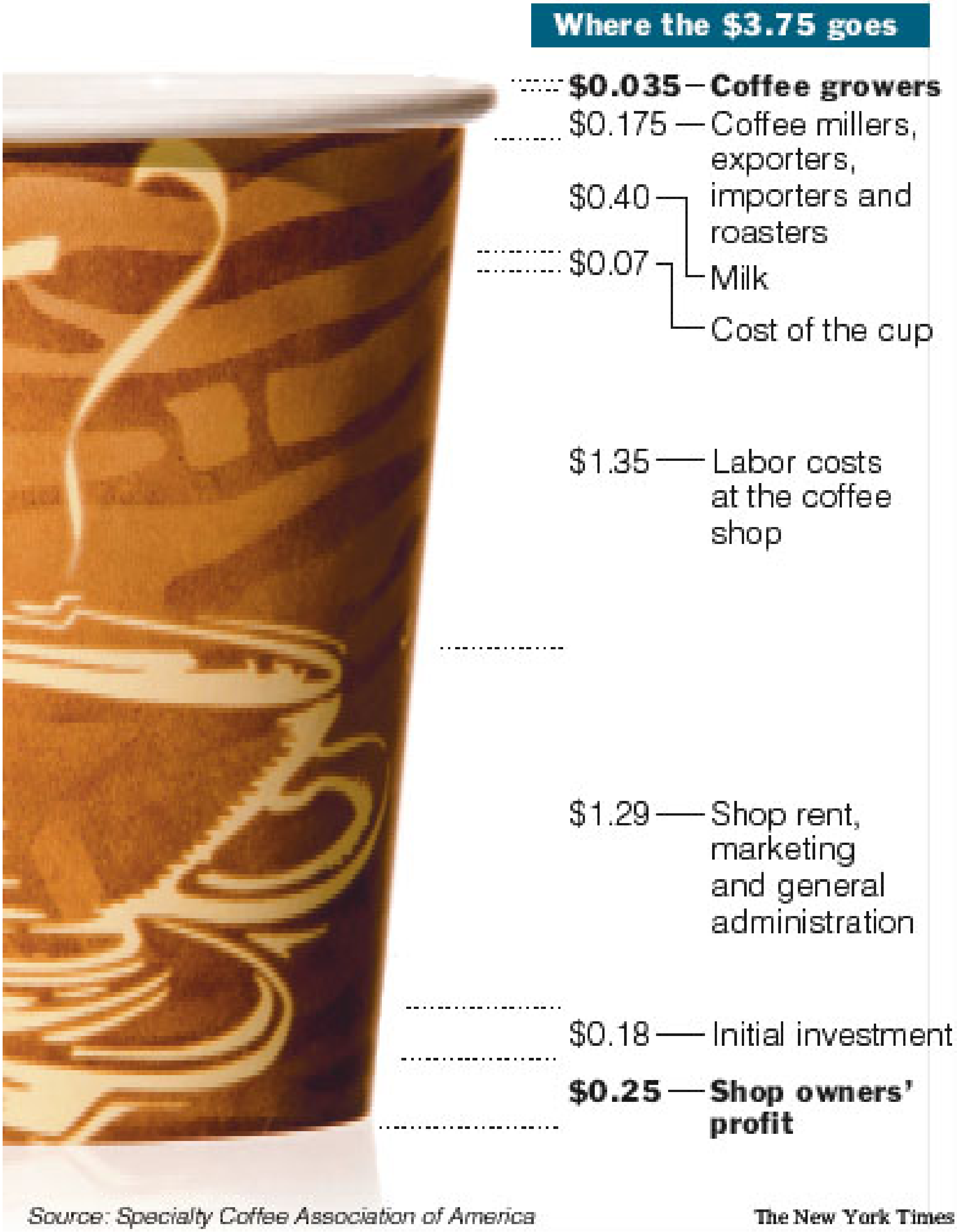
As one can conclude from this graph, the turn of the century brought a dire couple of years for coffee prices. This, as well as some radical novelties among coffee consumers, was tantamount to a new status quo for the industry and forced 100% Colombian Coffee to take bold decisions.

While volatility has been the rule in coffee prices, since the late nineties these have declined almost constantly. Prices averaged 120 US cents per pound in the eighties, but diminished to around 50 cents. This is so, mainly because of the abrupt entering of new exporting countries - such as Vietnam- to the international market and Brazil's recovery from underperforming harvests at the beginning of the decade. In addition, ICO has not yet recovered from its 1989 crisis, and other international agreements to control production have not succeeded.[40] As production has been growing at 3.6% every year and consumption at only 1.5% the world is flooded with coffee. For the year 2001 / 2002, total production was estimated to around 113 million bags and world consumption to only 106. To make things worse, coffee stocks amounted to 40 million bags at that time.

At the beginning of the nineties, producers earned around $10-12 billion dollars, but "the value of retail sales of coffee, largely in industrialized countries [was] about 30 billion". But were does this 18 – 20 billion difference go? In other terms, if prices paid to growers have been slumping, and I still pay $3.75 for my Starbucks cappuccino, where does my money end up going? What could producers do to increase their share of these $3.75? [41]

[40] *The Economist*, "Drowing in cheap coffee", September 27, 2001.

[41] In fact, Starbucks raised its prices by 11 cents in October 2004 for the first time since August 2000.


Where the $3.75 goes
$0.035 – Coffee growers
$0.175 – Coffee millers, exporters, importers and roasters
$0.40 – Milk
$0.07 – Cost of the cup
$1.35 – Labor costs at the coffee shop
$1.29 – Shop rent, marketing and general administration
$0.18 – Initial investment
$0.25 – Shop owners' profit
Source: Specialty Coffee Association of America
The New York Times

Such questions were surely in the minds of FNC leaders when they designed their strategy for the new decade. While 100% Colombian Coffee campaign had certainly been a success, the consumer market experienced a true revolution that began in the early eighties, and built a virtual tin wall between supermarket coffee – in which Juan Valdez was king – and the specialty coffees. Coffee differentiation was not the private territory of the mustachioed man anymore, and anything that was not sold in a bag was second rate.

That decade saw the enthroning of the yuppies, who would pay for anything that would convey a luxury image. This was good news for coffee, since its consumption in the US had shrunk by 39% since the beginning of the sixties, allegedly because it was bad for health. The yuppie generation turned the specialty coffee shops into a symbol that has democratically spread to almost every segment and age – I have seen homeless people seating side by side with lawyers in a Starbucks. The fact that specialty coffee shops has been the only sector to grow comes as no surprise.

Several small importers specialized in exotic brands from places you only read about on the *National Geographic Magazine*, began selling their delicacies in Western countries with huge margins.[42] This sector of the coffee industry started to operate as the wine industry, where each wine comes from a particular state, separating itself from the overall trends of a commodity market. Yuppies, who

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[42] At one extreme, Kopi Luwak from Sumatra sells for $300 a pound (and some people buy it).

were interested not only in paramount coffee but also in getting as healthy as possible, stimulated a second differentiating factor: the 100% organic mania.

In addition to this specialty revolution, coffee markets experienced the start of a new trend: the relationship between coffee and guilt. It seems that not only altitude and volcanic soils are good for coffee trees; conflict is also a factor for a good harvest. Consider Rwanda, Ethiopia, Kenya, Uganda, Zaire, Haiti, Indonesia, Colombia – of course – and even Chiapas in Mexico. All of these coffee exporters have gone through armed conflicts in the last twenty years or so, and for some reason, it is appealing for coffee consumers in the West to buy guilt coffee at a premium.

These changes made Juan Valdez campaign seem somewhat outdated. Before the specialty coffees appeared, there was Colombian coffee and the rest. Now, 100% Colombian Coffee had to compete with many other brands which were even more pure, exotic and sexy. While this happened, prices were at historical lows after ICO's break-up, shrinking FNC resources to invest in the campaign and putting at risk brand equity, and Juan Valdez began to disappear from scene.

As if these changes were not enough to make FNC feel uneasy, Howard Shultz, creator of Starbucks, managed to distill the specialty revolution into a store: a replicable concept and one of the hottest companies in history. The golden mermaid started as a merger between a small Washington roaster and a pseudo Italian coffee shop called II Giornale, and is worth 19,000,000,000 dollars now. Everybody knows Starbucks is not only a place where to buy good coffee. But what is the Starbucks experience really? Shultz's description is perfect: "People come to Starbucks to get away from the noise, and we have to treat it like a sacred environment".[43]

His place is a standardized combination of good quality coffee, agreeable ambiance, comfort, and convenience. If you go to a Dunkin Donuts and not buy anything, it just doesn't feel right, and the place does not invite you to stay for long. You can go to a Starbucks, stay for hours and not feel guilty because you remember the hundreds of dollars you spend there every year, and you want to stay because it's a free haven. Life is increasingly frantic in those countries where Starbucks has opened a store, and it really gives you a sense of refuge. You always know what to expect in terms of the quality of whatever you order and the place you are in. This is why Americans have given away their 50-75 cents a cup of Dunkin Donuts coffee, and are ready to pay several dollars for a cup of hot water with some diluted grams of coffee. No wonder the specialty coffee industry is worth $8.4 billion dollars and Starbucks has recorded 12 years of same-store sales increase and opens four new outlets and hires 200 new employees *every day*.[44]

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[43] "A full-bodied talk with Mr. Starbucks", *Business Week Online*, October 15, 2004.

[44] Day, Sherri, "Move over Starbucks, Juan Valdez is coming", *The New York Times*, November 29, 2003, and T.R. Reid, "Caffeine", *The National Geographic Magazine*, January 2005.

Besides, it gives you the perfect opportunity to express your "true self". It's coffee differentiation taken to the extremes. No one who drinks café misto grande skimed decaf would ever try a double expresso macchiato half and half.

V. <u>Juan Valdez gets closer</u>

To put it in a few words, FNC was faced with a bad combination. Historically low prices - which made it cancel its campaign in 2001 – and the acknowledgement that big dollars were being made by someone else. As a result, they decided to take bold actions.

First of all, they swapped DDB – Juan's creator - for Sawyer Miller. As the drivers of the specialty revolution are the 18 to 34 year olds, they have designed a new campaign to target consumers in the gourmet coffee sector. The first add depicted in black and white a group of trendy thirtysomethings having coffee after dinner. One would think it might well be a group of young Chipriots having Tequila, except that the add states: "The mood is Colombian coffee". According to the FNC representative in the US "this is the advertising for a new generation of coffee drinkers, more sophisticated, more seductive when it comes to coffee, and more passionate about their favorite brands (…) The campaign is designed to engage the viewer by capturing the authenticity and warmth of everyday moments and creating a special, aspirational mood."[45]

[45] "New add campaign for Colombian coffee", *Tea & Coffee Trade Journal*, November 20, 2004.

Although Juan Valdez does not star this campaign anymore, his logo appears in every add, and has still a role. He had an appearance in the final session of *Friends*, in Jim Carrey's movie *Bruce Almighty* and the HBO's Emmy Awards after-party. In addition, FNC has already opened several coffee shops bearing his name in Colombia and the US: to increase its share of the standard $3.75 for a cappuccino, the Federación decided to forward integrate its sales scheme, and plans to open 300 more in several countries by 2007. To do that, FNC started a new private company which foresees an IPO and give each grower a share.

Both the new campaign and the Juan Valdez coffee shops make a lot of sense and go in the right direction, but there are certainly at the beginning of a learning curve. First of all, these new samples lack the punch 100% Colombian Coffee adds used to have twenty and thirty years ago. Although the reference to the Colombian *spirit* is explicit, what that means is not clear. Country branding notwithstanding, the story these new adds are telling is still to be written in order to make an entry in the consumers overcrowded minds, but perhaps the first Juan Valdez was not at his best either, and there is hope that this new campaign will conquer new grounds.

The same thing happens with the shops. To go vertical is a great idea, but Juan Valdez coffee shops have a long road to travel before they start being attractive to the Starbucks devotee. At least the DC branch, located in one of the

OAS building, conveys the same dull message of the print campaign, or even a duller one.

First of all, it is a room surrounded by glasses, which makes one feel behind a windowpane of Amsterdam red light district. Someone walking on the other side of the street can easily spot what you are reading; no sense of privacy at all. Then there is the music: they play rhythm and blues and too loud, which is really anticlimactic when you want to relax. On top of that, if you thought you were going to find arty pictures of Colombian coffee trees and growers just to get in touch with Juan Valdez' home town and story, you are mistaken. Not a single picture whatsoever (perhaps they could put some if they had walls instead of glass panes). The chairs are a good piece of design and have nice leather covers, but you can't find any sofa to lie down and relax. The chairs would be perfect to USE your laptop, except that there are no plugs around.

To say it in a few words: there is no Juan Valdez coffee shop experience yet, and maybe there will never be one. Mr. Gabriel Silva, FCN current president, acknowledges Starbucks sells an experience, but he is interested in something else: "It's almost like a social place where you go there and meet your friends and read the paper and have some milk with coffee. They are not maximizing the potential of the pure coffee experience. Our stores are going to be much more down to earth – less opportunities for social interaction. It's not going to be a gathering place; it’s going to be a place to get superior coffee, the best coffee in the world”.[46]

They do sell good coffee there, and prices seem lower than at Starbucks, but I do not think that is enough. Starbucks is such a success because it sells good coffee and something else: that harbor where to hide from the storms of life. Those stiff chairs at Juan Valdez are just telling you the opposite, to drink your good coffee and go somewhere else. But this is not what Juan Valdez used to mean. Remember the *campesino* who lives by the seasons and works with his hands? The producer of the only coffee that is done step by step as his ancestors taught him? You will not find that in his coffee shop. The relaxing experience is not part of the project.

No doubt Starbucks does not fret about this new venture. Dub Hay, senior vice president for coffee said: “We are not worried. We ‘re well aware of what they’re going to do; we think there’s room for everyone”. With more than 3,500 stores worldwide and plans to open 6,500 more, they should not be concerned by a competitor that is not offering anything different - lower prices notwithstanding.

Starbucks is a great thing, but at the same time it’s not rocket science either. They only recovered the flavor coffee shops have in Europe, standardized it, converted into a product and a company, and marketed it. His management genius apart, Schultz’s greatest success has only been to give back to coffee its

[46] Day, Sherri, *Op.cit.*

sociological value: the sense of community he felt in Italian coffee bars. In his own words: "Starbucks sold great coffee beans, but we didn't serve coffee by the cup. We treated coffee as produce, something to be bagged and sent home with groceries. We stayed one big step away from the heart and soul of what coffee has meant throughout centuries".[47]

I admit it is not easy to create a peace giving coffee shop experience without risking to get mimic Shultz's idea, but the Federación has to understand the value of selling an experience and not only good coffee. To answer the question I asked a few pages ago: my $3.75 goes to the guy who is giving me a place to either escape from real life or is my office's landlord, and he has certainly earned my money.

There is something new going on at coffee shops, besides the *experience*. After the downsizing and merging wave that followed the Internet Bubble, many professionals found themselves out of a traditional office, and coffee shops have become the perfect space to work. With wireless internet and cell phones, any Starbucks can turn into office space for the price of a cup of coffee, to the point that it is increasingly difficult to plug your computer. This trend does not seem to stop in the near future, and Federación should also take it into account: after all, what's better to keep one's attention at work than having a good cup of

[47] Quoted in Kevin Lane Keller, "The brand report card", *Harvard Business Review*, January 2000. He he is talking about the times when Starbucks was only a roaster in Washington State and had no coffee shops.

coffee?[48] Some Starbucks have rooms where to meet privately which only lack a sliding screen.

Notwithstanding, the greatest danger does not lie in the coffee shop, but in the overall campaign. While it is perfectly logical to enter the specialty sector, one can not overlook 100% Colombian Coffee positioning of traditional purveyors to Maxwell House and Folgers. Can the campaign play in both fields and succeed? [49] Colombian Coffee has good tools to make it in the specialty sector. It has excellent quality, estate-like brands and the altruistic resume of the FNC, which nobody knows about, by the way. But how can it get rid of the reputation of "the coffee my parents used to like" and be the next big trendy coffee at the same time? Will it be able to sell in both sides of the tin divide? On top of that, it has been said the Federación has plans to sell coffee at big American fast food chains. It's like schizophrenia, only worse.

VI. <u>Some conclusions</u>

Several conclusions can be drawn from these pages for developing countries around a main point: the possibility to react to the commodity paradigm.

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[48] Links between coffee and productivity can go far away, as this quote from *The National Geographic Magazine* notes: "Boiling water to make coffee or tea helped decrease the incidence of disease among workers in crowded cities. And the caffeine in their systems kept them from falling asleep over the machinery. In a sense, caffeine is the drug that made the modern world possible. And the more modern our world gets, the more we seem to need it. Without that useful jolt of coffee – or Diet Coke or Red Bull – to get us out of bed and back to work, the 24-hour society of the developed world couldn't exist". T.R. Reid, *Op.cit*.

[49] "Scoot over, Starbucks".

Although it would be an exaggeration to contend that "commodity is a state of mind", one has to admit there are some strategies poor countries can follow to differentiate their products *and* themselves to enhance the positions they hold in an overcommunicated world.

As market oriented companies know, nothing affects an income statement's bottom line as much as its top item - the company's sales – and countries should take that into consideration as well: the marketing arena is a good place where to operate since it is there where big margins are made. If a developing country manages to sell its commodity products with a premium in the United States and Europe consistently, - even at home - it will be able to build a sustainable way of increasing the standards of living of its population. As a consequence, marketing should be taken seriously in government agendas.

Rich countries understood that a long ago, and have built upon their own image to sell services and products; developing countries can also enter their group - just as Colombia's FNC did several decades ago making use of business marketing tools. The beginning of this century is the perfect time to focus in marketing to rich countries, since the nineties enriched the already buoyant middle class of the Western countries. To be able to seize the entire benefits it is recommended to take into consideration the following conclusions:

- **Every country is a potential brand**. Even the most remote and unknown of countries has some differentiating potential as a brand, and this can be tapped by marketers and governments alike.

- **Good résumés are not so important**. Countries with violent pasts or less than optimal curriculums should not fret. As the Colombian case proves, customers do discriminate between the image a country has in the media and the products it offers in the supermarket. A country can be overwhelmed by violence and disruption, but its coffee can still be the best in the world.

- **Country branding campaigns are not crucial**. These have produced many success stories; yet, countries that have never engaged in marketing themselves can still sell their products conveying their national image. As far as we know, Colombia has not launched a campaign to enhance its image in the media, yet Colombian coffee has a great brand and sells at higher prices because there has been a congruent marketing campaign of this specific product for many decades.

- **It is essential to start with a product that can compete in world markets**. Building upon a comparative advantage is the name of the game, and an effort to keep quality under control has to be carried out to sustain that advantage. The role of an institution like FNC in supervising production standards can not be underscored enough.

- **The marketing effort is in better hands if the private sector manages it**. Constancy and stability are crucial in marketing, and in many cases developing countries are politically and financially unstable. While entrepreneurs' interests are constant over time – they always want to make more money - government and policies evolve, and marketing campaigns need time to triumph. In that sense, an independent entity with steady funding and run by entrepreneurs seems the perfect sponsor for such a long term commitment.

- **Behind every great brand, there is a great brand champion**. Every global brand – from Ford to Microsoft - was created by a person who, disregarding costs and risks, managed to print it in our brains forever. Governments should look for this type of personality when choosing who will manage their brands.

- **Prestige lies in the West**[50]. As a consequence, exporting countries are better off if professionals and companies who understand the Western consumer run the show. Developing countries should guarantee a very good product and cash flow to pay the campaign; marketing experts in New York or London should do the rest.

- **Branding happens in the territory of emotions, and those in charge of the campaign have to surf the waters of the mind to get their message through.** Researchers have begun to uncover the role played by emotions in branding, and specific techniques to gauge their role in marketing campaigns should be mastered in order to understand and conquer the consumer's mind.

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[50] As José Urrutia has stated: "If Peru were to sell alpaca to the affluent consumer of Saudi Arabia, it would not gain recognition. However, if alpaca was touted under the Parisian fashion circle it would attain international cachet".

The road ahead

As we have seen, marketing can play a crucial role in the growth strategies of poor countries. Consequently, it would be desirable to include that discipline in the international development agenda along with economic stability or health enhancement. Organizations such as the World Bank or the United Nations Development Program should devote resources to promote marketing advantages among governments and companies of poor countries. It is the role of universities and marketing experts to define which mechanisms would be most useful to transfer and apply this knowledge so these nations' products can attain stronger positions in foreign markets as a way to earn hard currency and increase their living standards.

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