

Coffee House Taste by the Cup™

Winning in the Marketplace

MIT Enterprise Forum

June 5, 2002

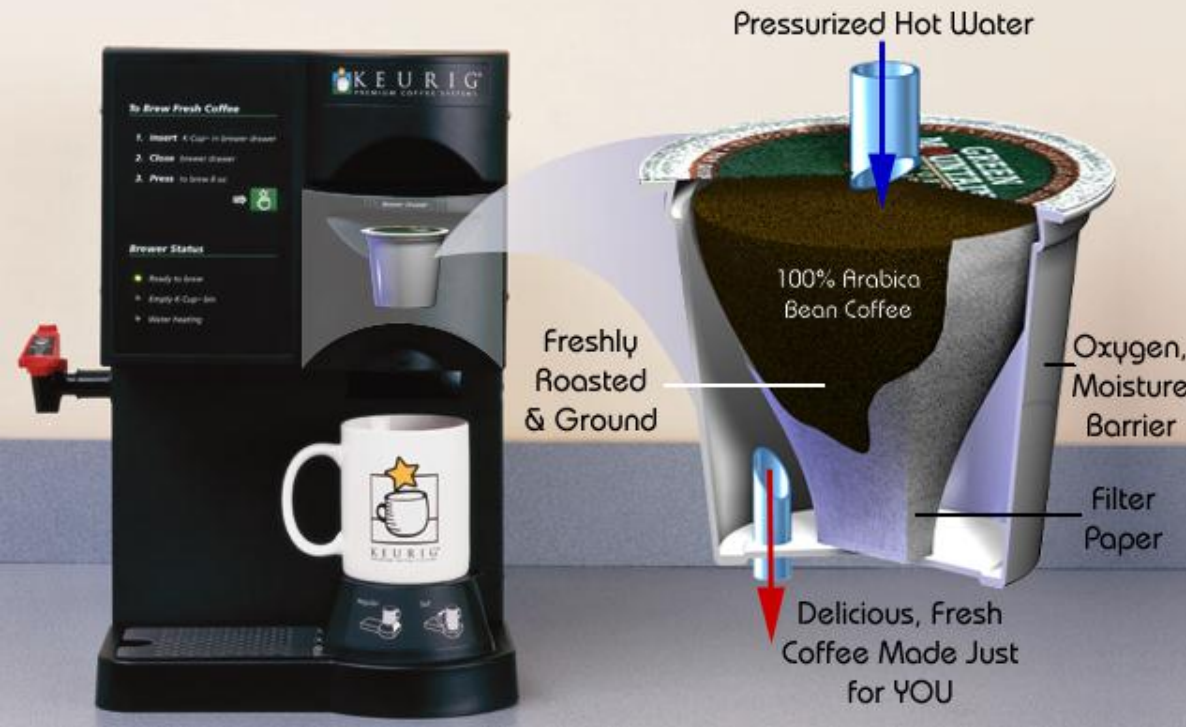
Nick Lazaris
President and CEO

Keurig Premium Coffee Systems– Our Vision

- ★ *Keurig will become ...
the world's leading supplier of...
portion-pack, single-cup...
coffee brewing systems for...
office, food service and home use.*

Portion-Pack, Single-Cup Brewing = K-Cups™

The K-CUP™



Portion Pack =

- Fresh coffee
- Consistent taste
- Variety
- Fast brew cycle: 30 sec.
- Easy to use
- Convenient

Keurig Launched in 1998

- ★ Targeted the Office Coffee Market
- ★ Since then:
 - ★ 28,000 brewers shipped
 - ★ 240,000,000 K-Cups shipped – nearly 500,000/day
 - ★ OCS profitable since 2000
 - ★ #1 OCS single-cup system in the United States
 - ★ 5 roasters -6 coffee brands, 79 varieties of K-Cups



Challenges to Market Entry

- ★ A “system” product
 - ★ Requires both the K-Cup and a special brewer
- ★ Premium pricing – of both brewer and K-Cup
 - ★ Invoiced cost per cup to Office Manager tripled
- ★ Missionary selling required – new technology
 - ★ Demonstration required to communicate value

Strategy 1

Initial Target Market Selection

- ★ The Office Coffee Market:
 - ★ Large – 2+ million coffee brewers and 450 m cups per day
 - ★ Image of office coffee was low:
 - ★ Bad tasting - some people even leave the office for coffee
 - ★ Inconvenient - preparation and clean up
 - ★ Resentment - who gets stuck taking care of the coffee
- ★ Food service and home consumption were more difficult to penetrate as launch markets

Strategy 2

Recruit Branded Coffee Roaster Partners

- ★ Branded specialty coffee was rapidly growing
- ★ Roasters had little presence in the OCS market
- ★ Roaster Branded K-Cups were beneficial to Roasters:
 - ★ The only form of packaging that provided taste control
 - ★ Ability to increase sales \$ per pound – from <\$5 to \$10 with K-Cups
 - ★ Opened up the OCS market for branded specialty roasters
- ★ Also Brought Benefits to Keurig:
 - ★ Piggyback roaster brands – stretched Keurig's marketing \$\$
 - ★ Roasters manufactured and shipped K-Cups – Keurig infrastructure requirements reduced
 - ★ Roasters paid Keurig a royalty – high GM% business for Keurig

Strategy 3

Recruit Office Coffee Operator Partners

- ★ OCS distribution was fragmented with heavy price competition
- ★ Keurig system was beneficial to OCS distributors:
 - ★ New technology allowed differentiation from OCS competitors
 - ★ K-Cups tripled the per cup sales and profits
 - ★ A new account offers additional allied product sales and profits
- ★ Also Brought Benefits to Keurig:
 - ★ Piggyback the established sales and service network
 - ★ Rapid expansion of our “sales force” on a national basis
 - ★ Lowered Keurig’s infrastructure requirements: sales, service, inventory

Strategy 4

“Recruit” Office Employees to Sell Keurig

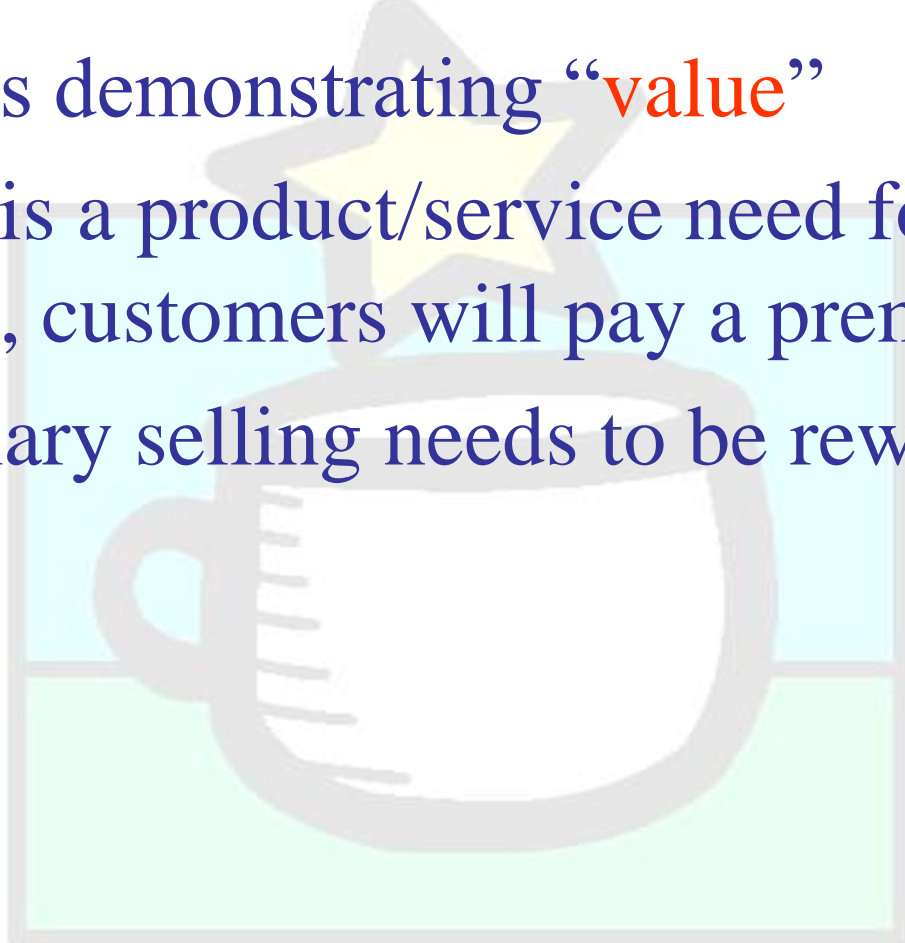
- ★ Keurig’s main obstacle is premium price
- ★ Office manager is the “gate keeper”
- ★ Keurig’s closing rate is over 50%:
 - ★ “Push” marketing to office coffee operators
 - ★ Then “Pull” through office managers with demand created by office workers
 - ★ The free demonstration is the key – “coffee house atmosphere”
 - ★ Employees get hooked (recruited) – and sell the system’s benefits to the office managers
 - ★ Then, OCS distributor discusses K-Cup pricing versus the “full cost” of regular coffee systems

Three Lessons from the “Keurig” case

- ★ Understand the inherent strengths and weaknesses of your product/service
- ★ Select a point of market entry that maximizes your ability to create a defensible beachhead
- ★ Recruit strategic partners that can leverage your assets by providing them a profit opportunity

Marketing a premium priced product successfully...

- ★ Requires demonstrating “value”
- ★ If there is a product/service need for these benefits, customers will pay a premium.
- ★ Missionary selling needs to be rewarded.



A Final Comment...

People = difference between success and failure

★ Entrepreneurship means growing from:

Idea to product to sales to going concern

★ This takes people working together:

Hard work + Smart Work + Team Work

Thank You!

