

How Innovation Transforms a Defeated Product into a Success --a Case Study of CITY CAFÉ

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Abstract. 7-Eleven stores yearly sell more than one hundred fifty millions (150,000,000) cups of CITY CAFÉ and the annual turnover is worth more than 10 billion NTD. This hasn't always been the case, and with huge losses between 1986-1992, they decided to shut it down. How did CITY CAFÉ rise from the ashes? The top managers of 7-Eleven did not give up selling fresh coffee and coffee consumers gradually increased. The company decided to re-start the brand in 2004 after extensive market research. They gave the coffee a new image, segmented the market, re-targeted the new client base, and along with the repositioning to re-enter the market. 7-Eleven integrated their inner resources and combined their ingredients production to generate synergies within the enterprise. What's more, Uni-President Corporation also runs joint-venture of Starbucks coffee along with 7-Eleven in Taiwan. They learnt relevant domain knowledge and business model from Starbucks coffee and applied it to CITY CAFÉ. Among the Taiwan local brands, they are one the minorities of cases that rose from the ashes of failure. Furthermore, it can lead the consumer trends to drive new demand growth, and thus obtain a leading market position and became a story of success.

Keywords: Brand Innovation 、 Dynamic Capability 、 Competitive Advantage 、 Marketing Strategy

1. INTRODUCTION

7-Eleven Taiwan had the conception of development of freshly brewed coffee business, derived from US 7-Eleven's strong recommendation and persuasion. 7-Eleven is the largest convenience store chain and is owned by President Chain Store Corporation under Uni-President Enterprises Corporation. It was licensed by US Southland Corporation in 1978. US 7-Eleven sold more than 10 pots of freshly brewed coffee daily per store in the 1980s, one of the main sources of profit. In this successful experience, 7-Elevens in Taiwan were attracted to replicate this mode of operation and to sell freshly brewed coffee from 1986. In the beginning, about 100 7-Eleven stores sold single item, American coffee, for the price of 25 NTD per

cup. President Chain Store Corporation had high expectation of good selling as it was in USA. The result was disappointing, on average, for every cup sold, 9 cups were wasted. Drinking coffee and coffee to-go culture was unpopular, lack of demand and freshly brewed coffee could not last long, causing more loss than making profit. It was unable to meet customer expectations, the market response was not satisfactory, they decided to shut it down with huge losses in 1992. However, the top managers of President Chain Store Corporation did not give up the business of freshly brewed coffee, with the transformation of Taiwan's consumer culture, 7-Eleven has been looking for an opportunity to re-start.

1.2 The Evolution of Coffee Culture

Drinking coffee was basically considered a luxury thing for celebrities and the upper class before the 70s. Street cafes gradually increased with the increment of national income and integration of western culture in the 1980s; coffee (such as Mr. Brown canned coffee) and cheap, convenient 3-in-1 instant coffee became a regular drink and generally accepted to meet the tastes of the public since 1985. There was a variety of cafes appeared in the streets of Taiwan. Manabe, Dante of chain brands sold meals with coffee, followed by many small coffee restaurants such as McDonald's, KFC's and international fast food brands also have been selling freshly brewed coffee in low-price in 1990s. Barista and Starbucks and other coffee shop chains have opened with espresso coffee seize the high-end market between 1997 -1998.

With the rise of cheap to-go coffee chain, Taiwan's freshly brewed coffee market has entered a rapid growth stage after year 2000. Ecoffee emphasized on " having a cup of good coffee with 30 NTD," and deepened the Taiwan market acceptance of freshly brewed coffee, then they opened one hundred shops within a year in 2002. Then, 85 °C Bakery Café entered into the brewed coffee market the following year, pricing a cup of middle size American coffee at 45 NTD, a cup of middle size latte at 80 NTD, taking with exquisite pastries of "parity composite" strategy, effectively touched to the blue-collar consumers and extended to 83 shops in 2005. President Chain Store Corporation re-entered coffee market to sell parity freshly brewed coffee in its stores and developed "CITY CAFÉ" brand in the same year, gradually gained consumer recognition with its unique marketing techniques and advantages of several thousand stores. Then in 2007, Familymart, Hi-Life and other convenience store chains also entered into this market, many chain (even individual business) breakfast shops also began selling freshly-brewed coffee.

Drinking coffee can be said to be a part of Taiwan's consumer life. People can buy them over 10 thousand of convenience stores, fast food restaurants, chain and privately owned coffee shops and breakfast stores, complete covering low-end to high-end market, while consumption on the premises or take out business model can meet the needs of different consumers. The prosperity of freshly brewed coffee grind is also reflected in the import side. Taiwan imported coffee beans (raw and roasted) in total was about 4,794 tons in 1999, 17,893 tons in 2010, according to trade data, the Ministry of Finance Directorate General of Customs Statistics). Incremental growing increased almost four times in 10 years. The amount of coffee beans were consumed in Taiwan reached 21,800 tons in 2013, a growth of 22% in 3 years. Taiwan's coffee

market is estimated to have more than the size of sixty billion Taiwan dollars. If the consumption amount of coffee beans in Taiwan is calculated in terms of the number of cups, drinking about 100 cups per person per year, compared with Europe (500 cups), United States (412 cups) and Japanese (343 cups) market, it is estimated there is a lot of room for growth.

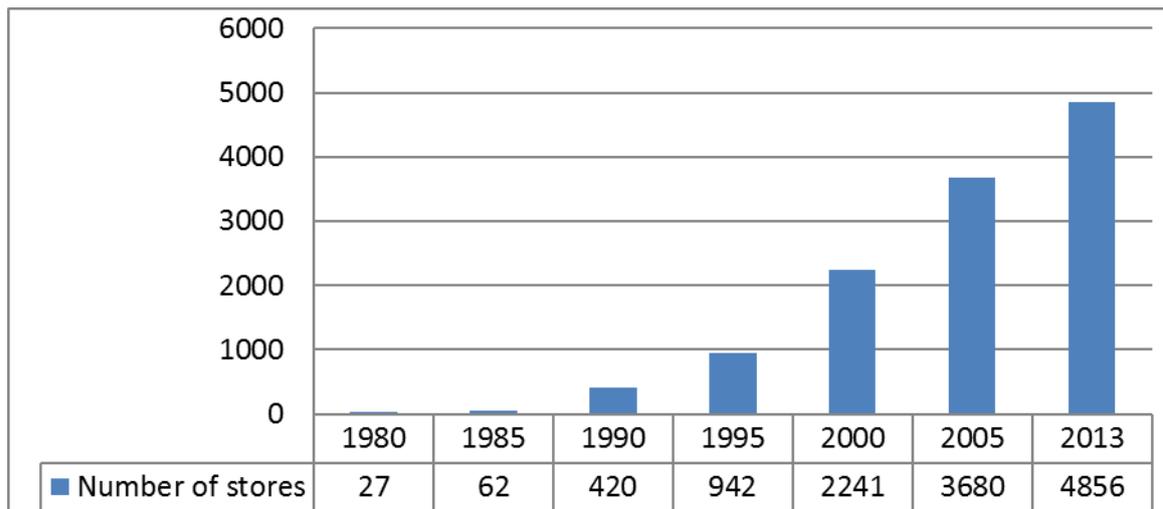
2. DEVELOPMENT OF CITY CAFÉ

Uni-President Enterprises Corporation raised funds to establish President Chain Store Corporation in 1978 and introduced 7-Eleven to Taiwan. President Chain Store Corporation finally turned a profit in consecutive losses after seven years. President Chain Store Corporation has consistently ranked Taiwan's leading retail leadership in a positive development and innovative marketing for 30 years. It has not only accumulated the experience of operating a chain of retail channels , and toward more internationalized, diversified business model in order to develop a unified, merchandising service, construct strong logistics, intelligence, and other support systems led by President Chain Store Corporation (President Chain Store Corporation, 2012).

President Chain Store Corporation was originally positioned as sales of general consumer goods convenience store, and later more active cooperation with the government and other business units, opening a more convenient service of collected and paid services in 1998. Such a wide range of business models and convenient services, increasing the frequency of consumers to buy freshly brewed coffee as consumers pay the phone bill, utilities, tuition in any 7-Eleven store, and use the ibon to buy tickets (high-speed rail tickets, express bus tickets) or entertainment tickets (movie, concert tickets) . 7-Eleven's revenue has exceeded 200 billion NTD, the number of stores has grown to more than 5,000(Figure 1), and in more than 50% market share until 2014. 7-Eleven is the most convenient store to provide the necessities of life, their channels with the advantage of convenient services, based precisely on CITY CAFÉ development

2.1. First Involvement in the Freshly Brewed Coffee Market

Looking back on the sales of this in 1986 when the company first started selling freshly brewed coffee, President Chain Store Corporation expected to create a lot of gross profits from this business. They expected to expand 100 7-Eleven stores to sell coffee every year. Due to the lack of knowledge in the freshly brewed coffee market, the internal and external resources also lacked of



(Source: internal data of President Chain Store Corporation)

Figure 1 Numbers of 7-11 Stores

comprehensive development, the performance in the market was not looking good. The company suffered huge loses for 6 consecutive years, exceeding one billion NTD on average every year.

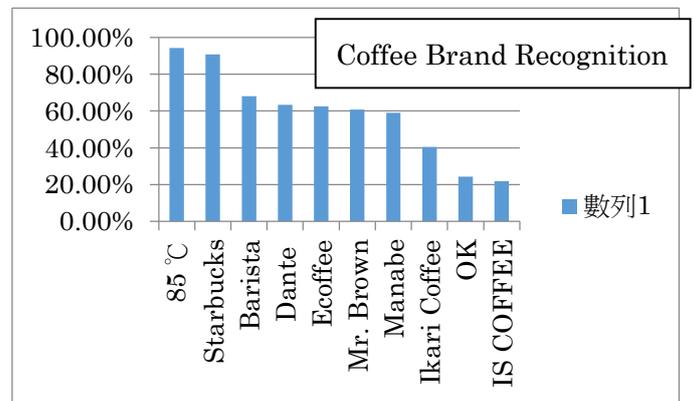
During the sale of the freshly brewed coffee, they didn't effectively deliver the positive image to consumers and also lacked of a powerful brand name. 7-Eleven stores only provided American style coffees without other options for consumers. Moreover, they only imported Bunn machine to make their coffee, it could last no longer than 30 minutes after being freshly made. The longer it was left unconsumed, the worse the quality of the coffee. Everyday the staff had too much time to do stock taking and unloading, therefore they had little time to take care of the coffee sales.

2.2 Ready to Launch Again

7-Elevens continuously integrated the internal and external resources, trying to find the most suitable business model to re-enter the market at the best time. The top managers of President Chain Store Corporation noticed other images of Starbucks and their friendly services and professionalism during an observation in other countries, it was unseen in the Taiwan market. Because of the birth of Starbucks success, freshly brewed coffee was successfully relaunched by following their trend.

2.3. Introducing Starbucks Coffee to Taiwan consumers

President Starbucks Coffee Corp rapidly became a high-reputation chain coffee shops because of the world-renowned brands and its refreshing service. Since the opening in January 1998, it expanded to around 25 shops in average per year, which was faster than expected. 17 years later today, there are 358 Starbucks shops all across Taiwan which shows the success of Starbucks coffee consumption in the life of the people in Taiwan, deeply impacted on Taiwan's coffee culture (Figure 2).



(source : Pollster online Poll Market Research 2010)

Figure2 Brand Recognition

3. Learning to prepare and to be on the market

3.1. Dynamic Capabilities and Core Competitiveness

Leonard-Barton (1992) defined dynamic capabilities as “under the terms of marketing position and reliability, absorption, development and reorganization and integration of internal and external resources.” Due to the failure from last time, President Chain Store Corporation gained a valuable lesson from Starbucks success, expecting to be a leader in the competitive market.

3.2. Opportunity to be on the market

People’s diet started to change in the 90s, western culture started invading Taiwan, which also pushed the sales of coffees. At the same time, coffee was also promoted as a product with health benefits such as antioxidant. This trend encouraged consumers to keep drinking coffees. After a long observation, evaluation and data collection, the team at President Chain Store Corporation agreed that coffee drinking is a part of people’s lives, which was a perfect opportunity to reintroduce freshly brewed coffee into the market.

However, as a fast follower brand, 7-Eleven also had

to convince occupy 90% of the store franchisees, they were not affected by the failure in the past and they’d be willing to re-enter the market. In the beginning, it was a particularly difficult challenge which could not guarantee success under the premise of how to get franchisees willing to invest 400,000 NTD, setting up the coffee machines in their stores. During the early stage of development, the actual situation of its store promotion was as expected, stores lukewarm response bias, more on the sidelines. Therefore, the management team decided to start with a few more visitors, and is located in Eastern Taipei metropolitan essence of the 15 stores began to promote, each cup is priced at between 50 and 25 dollars, and provide a number of products for consumers to choose. The average income in the area was high, the degree of acceptance of freshly brewed coffee was also high, which resulted in the following outcomes: other franchisees naturally took the initiative to invest. And indeed such a strategy worked successfully obtained point, line, surface link, the cumulative effect of brand recognition. Beginning in 2004, the number of stores in Taipei reached 30 by the year 2007, then to an annual increase of 1,000 stores nationally, sales had a substantial growth in the highly competitive freshly brewed coffee market. This led to the spread of more than 99.5% of the outlets nationally (Figure 3).

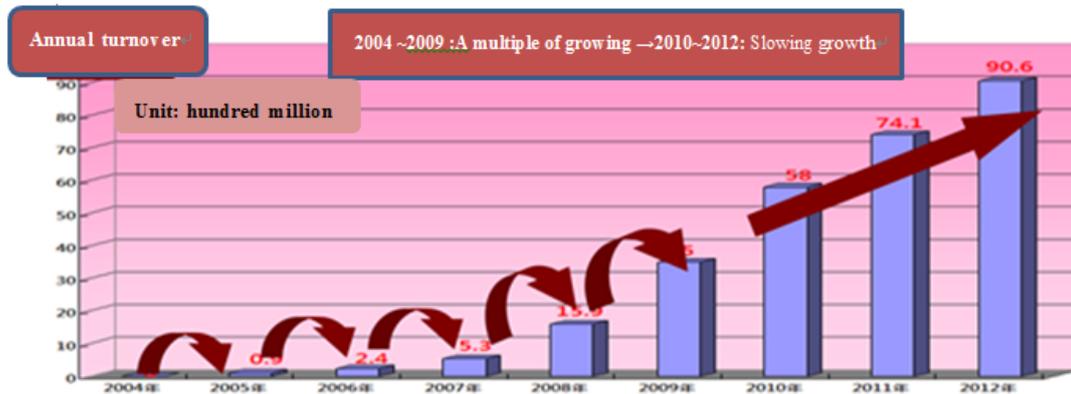


Figure3 Brand history of CITY CAFÉ

4. PRODUCT DEVELOPMENT

When the market continues to grow, the President Chain Store inside of freshly brewed coffee operation and management capacity continued to improve; both in product research and development, machinery... in all aspects made full preparations.

4.1 Carefully Selected Beans

A good cup of freshly brewed coffee involves in a lot of factors, and it’s even more challenging to quickly make a lot of cups that fit everyone’s taste. Coffee beans are the most important. Different coffees require beans from different regions and also the need to constantly improve its specification and beans recipe.

The coffees at 7-Elevens have to pass all kinds of strict

inspections before going on the shelves. This can ensure the quality of the coffee beans. No other individual businesses or small companies could beat this kind of synergy

4.2 Ground Roasted Coffee Beans

After roasting coffee beans, the aroma and flavor began to appear, and after a fixed point in time, the flavor will change gradually, slowly decline, so the more fresh coffee beans brewed coffee drink, the better. Because of this, CITY CAFÉ imports of fresh coffee beans Central and South America, after Taiwan, baking the ground. After continuous testing for two years, using different kinds of baked beans separately, and then the deployment of six kinds of coffee beans, and bake according to the severity and call out the popular taste different coffees, to meet different consumers.

4.3 Coffee Machines

The production process is the key to a good cup of coffee. The more finely grinded the beans are, the better the taste. The coffee machines also play an important role in making sure the highest quality of the products. The machines at CITY CAFÉ are set as "By-Pass", they extract the best part of the beans to make the coffee taste clean and perfect.

5. MARKETING STRATEGY

Successfully entered to high-price and affordable market, Starbucks and 85 °C 's cases tell us that coffee with a distinctive taste preferences is different from other drinks and brands, especially in operating a chain of coffee is more focused on the need of shaping the brand..

In order to achieve consumer recognition and economy scale, the cheap coffee market has been occupied by Ecoffee and 85 °C since 2002. As a fast follower of cheap coffee , how CITY CAFÉ occupied the existing coffee market share became the criterion that the managers had to resolve.

5.1 Segmentation and Positioning

CITY CAFÉ segments the market as consumer demand basis, they adjusted in product positioning, marketing activities to the products to fit the needs of consumers (Smith, 1956). They further decided to sell "takeout coffee" for the demands of customers with the characteristics of convenience stores to provide consumers a more convenient time for compact choices. Unlike ordinary parity composite coffee shop business model, CITY CAFÉ expected to become "first user" to drink their

first cup of coffee, as long as the first cup of coffee to taste, the consumer will have a brand adhesion. While 7-Eleven is aimed at the consumer segments of office workers and students, the affordable price becomes very important. According to internal data of 7-Eleven shows that the people of Taiwan have 9 cups of coffee in average per person per year. It also shows that its pricing strategy is one of the multiple factors for repeat buying behavior.

5.2 Shaping the Brand, Advertising and Promotion

Looking back 1986, the first launch of fresh coffee, 7-Eleven sold only a single American coffee.

Coffee was just another commodity of convenience store without brand. It was unable to establish a brand image in the minds of consumers. During the three-year selling period from 2004 to 2007, the performance of fresh coffee incrementally increased at 7-Eleven stores. Therefore, President Chain Store decided to invest a large number of marketing resources to make marketing in a systematic and organized policy. CITY CAFÉ is getting familiar to everyone, 7-Eleven stores know brand as the names, they must be able to deliver a clear value proposition and brand personality. Therefore launched "The whole city is my cafe" slogan, would be emphasized trendy style. To strengthen brand recognition, so that consumers will be able to identify this one store selling coffee. But also set up dedicated website, telling CITY CAFÉ brand story and invited well-known writer published an article on website to disseminate the relevant knowledge of coffee. In addition, Inviting the young star Kwai Lun Mei as a spokesman for its fresh, young, fashionable image and had success attracting younger workers and recognition, not only to convey the coffee value opinion leaders, will also strengthen the brand positioning wind.

5.3 Channels

By the end of 2014 7-Eleven has 5,040 branches, accounting for over half of Taiwan 10,130 convenience stores (President Chain Store, 2014). In this powerful and dense path network, any relating to commodities, are likely to cause consumer perception reaction, regardless of make and lose, are doubled amplification. Recall that in 1986, 7-Eleven introduced freshly brewed coffee after the loss of more and more, because 7-Eleven store exhibition fast, and now the situation reversed, also benefited from the advantage of its passage.

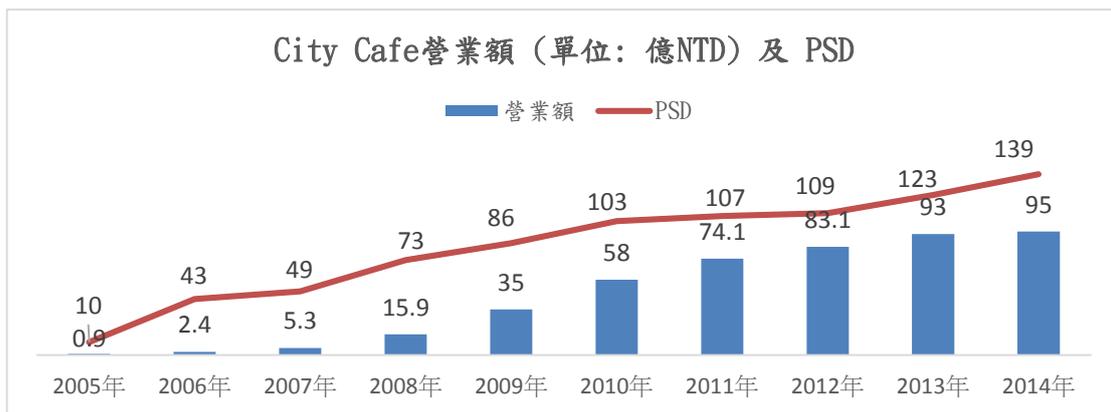
6. CONCLUSION -- DEVELOPING AND CHALLENGING

Based on 7-Eleven fresh coffee sales statistics, its

consumer base has been more stable since the third year (2007). It is no longer just a cheap takeout coffee, but it has its own brand. Its slogan "the whole city is my cafe", has become synonymous with the coffee culture of life "(Zhang Yuning, 2009). So CITY CAFÉ began rapidly expanding its store from 500 stores in 2006 to 4,300 stores in 2010. Annual turnover is from 530 million in 2007, an increase of 5.8 billion in 2010, growing 10 times within three years. Relying on its number of stores advantage, CITY CAFÉ also replaced 85 °C to become the market leader of cheap fresh coffee. 7-Eleven constantly involved and integrated its internal and external resources, explored and fostered the core competencies of coffee business. It fully uses its advantages of number of stores and hopes to gain more than tens of billion NTD (Figure 3). The target is to be the highest revenue of fresh coffee in the volatile and dynamic business environment in Taiwan. This success story once again confirms the spirit of the dynamic capability theory and establishes to maintain a competitive advantage indispensable core capacity, the organization continues to assimilate, establish and revamp its internal and external

resources to respond to the changes in the external environment.

While CITY CAFÉ expands the market size of fresh coffee, it also intensifies the competition in the market. In addition to convenience stores, the chains of coffee shops, fast food chains, individual coffee shops, dining and breakfast inns¹, people can buy fresh coffee everywhere. CITY CAFÉ growth began to slow down since 2010, annual revenue growth rates are only 10% in 2012, 2013, only increased 3.3% in 2014(Figure 4). After a decade of rapid growth, is Taiwan's fresh coffee market saturated yet? Or are there other internal and external factors that hinder the growth CITY CAFÉ? How to maintain CITY CAFÉ growth momentum? This is the most important business issues for President Chain Store. How to integrate their own advantages of CITY CAFÉ or to develop different pricing of products if they want to boost the second growth curve? These questions are challenging the wisdom of the managers.



(Source: internal data of President Chain Store Corporation)

Figure 4 Revenue of CITY CAFÉ

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