

Practical Community in Business Model

HOTSHOT COFFEE CASE

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Dalini Ferraz prepared this case under supervision of Professor Fabian Salum, both from Fundação Dom Cabral. It is intended to be used as basis for discussion in classroom, rather than to illustrate the effective or ineffective handling of any particular administrative situation.

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Hotshot Coffee

“IT ALL STARTED WITH JAPANESE CANNED COFFEE”

Excerpt from HotShot Coffee’s official site.

The idea of hot coffee sold in cans was born in Japan in 1965, launched by Mira Coffee. This first brand was not very successful. Four years later, in 1969, UCC Ueshima Coffee, often credited with the invention of coffee sold in cans, launched its product in the mass market.

Although the canned coffee concept has met with great acceptance in the Japanese market from the beginning, it was only enough to significantly impact production growth when, in 1973, the hot and cold canned coffee vending machine was broadly introduced in the market, driven by the launch of the 100 yen coin in 1967. During this period, vending machines and canned coffee became a great success.



First ready-to-drink coffee can introduced by the UCC Ueshima Coffee in the Japanese market in 1969.

Source: www.ucc.co.jp, accessed in Sept/2017.

Canned coffee is ready to drink – RTD. The beverage is served hot during winter and iced during summer. There are different canned coffee types in Japan. The most common is “Milk Coffee”, which contains milk and sugar, usually. Black coffee is also popular, as well as milk coffee without

sugar. There are also some specially flavored coffees such as the hazelnut flavor of the Georgia brand; however, those are less common types. Most flavors are sold both in hot and cold variants.

An embedded technology enables that by pressing a red button at the base of the can and waiting for three minutes, the consumer get his beverage hot. The button triggers off a chemical reaction between water and lime that is capable of generating heat. Outside, the reinforced-lining can does not burn the consumer's hands, and just becomes warm.

The Japanese canned coffee market is today estimated at \$14 billion. However, the market is already considered mature, in which brands competed such as Boss (made by Suntory – a Japanese company), Georgia (made by Coca-Cola), Nescafe (made by Nestlé) and Ross (made by Japan Tobacco) – a quite diversified group of companies, including beverage, foodstuffs and even tobacco products.

THE HOTSHOT COFFEE

Danny Grossfeld, while traveling in Tokyo, Japan in 2008 and after over 30 hours flying and jet lagged, was out on the street at 5 in the morning looking for a cup of coffee. The New Yorker went to several stores in hopes of finding the beverage. He finally quit, and went to a freezer at the back of a store willing to drink iced coffee and was surprised when he found not a freezer, but a machine that dispensed hot, ready-to-drink canned coffee. He tasted the coffee and noticed that the flavor was the same of coffee in a cup.

Danny had discovered the Japanese hot canned drink market. He liked the idea so much that he returned to the US intent on investigating this market's potential in his homeland. Why hadn't anybody taken that business to the US? Grossfeld quickly discovered that the Japanese canned coffee market reached millions of dollars, ranking below the American and German markets in terms of coffee *per capita* consumption.



HotShot coffee can and the HotBox container that keeps the cans at 60° Celsius.

Source: drinkhotshot.com, accessed in Sept/2017.

Grossfeld then began experimentations to develop his own version of the product and a more convenient manner to keep it hot. After thousands of formula adjustments (more than 1500 recipes tested along 6 years), he found the result he wanted and also developed a small container



called the HotBox, capable of keeping the beverage heated at 60° Celsius (the ideal temperature for espresso coffee is 90° Celsius). The HotBox uses electric power to create heat, but its power consumption is much lower than that of many common home appliances. In addition to the coffee recipe and the container, Danny also developed a label capable of protecting the consumer's hand from the can temperature.

Danny managed to fund the production process and expensive molds with his own cash, alongside additional funding he sought out from family and friends. He eventually sunk over two million dollars into his dream. In 2015, he tested 1000 cans of the product with potential consumers and found the response quite positive. Danny then resorted to the Kickstarter crowdfunding platform to enable the production of 4000 HotBox containers.



[Watch Danny's video telling his own story]

Danny had a story published about his business in the newspaper Los Angeles Times, increasing his chances to capture funds. However, apparently there are not many people sharing his business vision. His capital raising target was \$80 thousand, but he only raised \$10 thousand. The copy published in the Los Angeles Times, however, yielded positive effects.

Danny received a call from the Shark Tank program producers – an American reality show broadcast by the ABC channel. In this program, entrepreneurs present their ideas to investors with the purpose of obtaining funding. This American program is an adaptation of the British version Dragon Den's, which was based on the Japanese global franchise Mane No Tora (the "Money Tigers").

The program producers were interested because they liked his passion and drive, as well as the tenacity he had shown throughout years of product development. So he was invited to appear on the show in October 2015.

Danny's idea was to capture \$300 thousand in exchange for a 10% holding in his venture. During his pitch (a 5-minute presentation of his business), Danny explained that he had developed the ideal product for people who are too busy and in love with coffee. With the HotShot, these people could simply pick a coffee can from within a HotBox and they would never again have to brew a cup of coffee or wait in line at a coffee shop. He also stated that the HotShot would be the first ready-to-drink coffee in the Americas and, in conclusion asked who would be willing to wager on the coffee revolution and also become a HotShot.



Investors assessing Danny's business first tasted the product and were positively surprised by the flavor, the temperature of the beverage and the thermal comfort of the can enabled by the label. Then they asked Danny how much he had already sold and the answer was: nothing.

One of the investors then told the legend of Sisyphus, a king in Greek mythology, who was sentenced to repeat the same task of rolling a boulder up to the top of a mountain and, every time he came close to the top, the boulder rolled down the hill to the starting point pushed by an irresistible force, totally nullifying the hard efforts expended. The investor told Danny that he was the cursed man, forced to push the HotShot business up the hill without having ever completed a single sale.

Another investor asked Danny whether he had ever presented his product to convenience stores. Danny replied that he had received proposals from a few interested stores, but could not clinch a deal with the retailers. He also added that he believed that with the help of the program investors his products could be easily sold.

However, none of the investors were willing to invest any money in the business. Their answer to Danny was delivered in unison: a business that sold nothing in 6 years could not be a promising business; "it was a hobby, not a business".

And how is HotShot today? Soon after the program, Danny's idea was to continue wagering his chips on the business. In the sequence, this entrepreneur opened the company site for order placement in a waiting line to be served soon. In March 2016, however, the orders were canceled following an allegation of production issues. Customers were refunded. Today, despite the company's site being on line (drinkhotshot.com), including the product and prices menu established for Internet purchasing and the buying process seemingly up and running, at least until the time to key in a credit card number, there is no news about sales and the business remains anonymous, to say the least.

NESTLÉ'S ATTEMPT IN THE BRITISH MARKET

Just like HotShot Coffee, Nestlé, a giant in the food industry, also laid its chips on the canned coffee market. In May 2001, the company announced the launch of its canned coffee, "*Nestlé's 'new hot when you want' coffee*" in the British market. The technology used to heat the product was the same used in the Japanese coffee can, by pressing a button in the base of the can and waiting for three minutes until the coffee was heated by means of a chemical reaction.



Nestlé's hot canned coffee introduced in the British market in 2001.

Source: www.bestinpackaging.com, accessed in Sept/2017

Product sales began at £1.19, and the product was offered in two versions, in 330 ml cans of coffee with milk sugared and unsugared, available at 5,000 sales points.

In August 2002, however, the company announced that the product was to be discontinued. The company had invested £5 million in the development of the can and £10 million in marketing launch campaigns. Jon Walsh, the company's Marketing CO, admitted two serious mistakes.

The first was that customers were disappointed in opening a 330 ml can and finding only 210 ml inside, even though this information was quite clear in the label. The second, and graver problem, was that the drink didn't get hot enough in cold weather. Many consumers began referring to the product as "*warm when you want*". The product's penetration reached 15% in the initial sales, but soon dropped when customers failed to buy it again.

REFERENCE

Information for preparation of this text was extracted and compiled from secondary sources, UCC and HotShot sites (in English), the Wikipedia (information was duly checked), Gazette Review, The Guardian and BBC, all accessed in September, 2017.

Material prepared by FDC researcher Dalini Ferraz, under the orientation of Prof. Fabian Salum – FDC, in September, 2017. To learn more about our studies and productions access website: www.practicalbusinessmodel.com