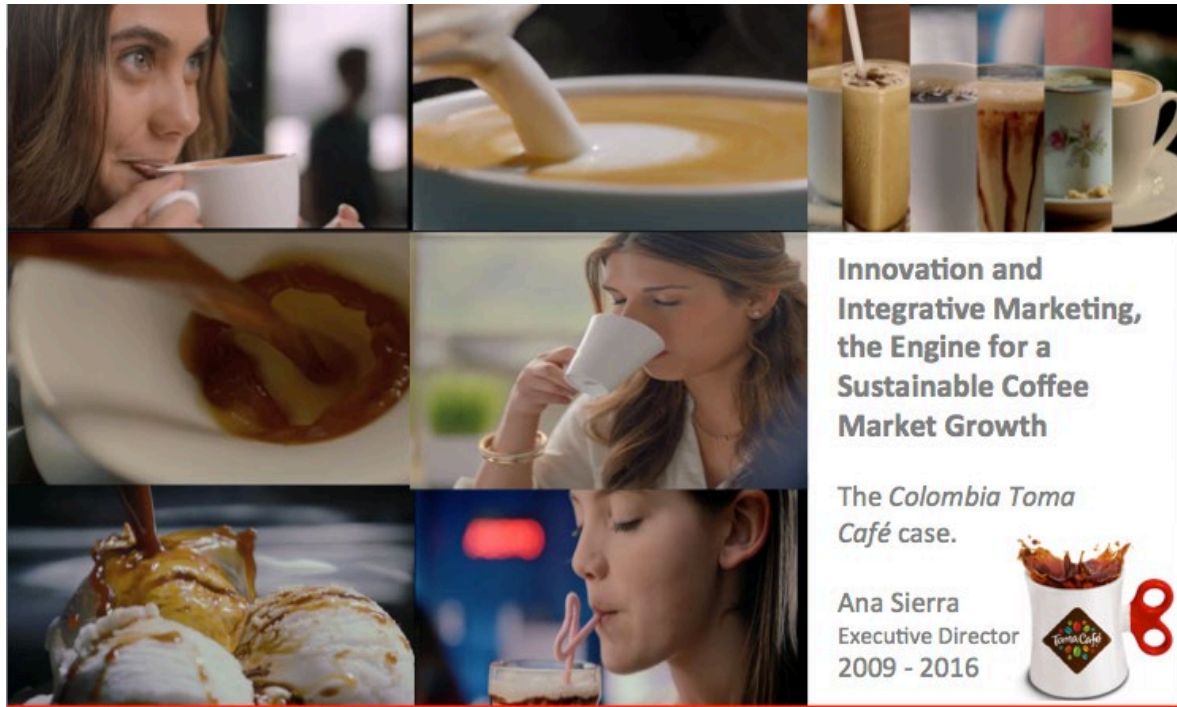


Innovation and Integrative Marketing, the Engine For a Sustainable Market Growth

The Colombian Toma Café Case


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Innovation and Integrative Marketing, the Engine for a Sustainable Coffee Market Growth

The Colombia Toma Café case.

Ana Sierra
Executive Director
2009 - 2016



Nairobi, March 2019

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Good afternoon. It is an honor to share with you the lessons learned while leading Toma Café, the Colombian Coffee Consumption Program. And it is pleasure to visit Nairobi and the African continent for the first time. My name is Ana Sierra. I am a marketing and communication strategic consultant whose ambition has been to help organization leaders' develop sustainable markets growth. Lately I've discovered that traditional strategic leadership and cluster association as we know it, doesn't work when it comes to propel sustainable market growth.



I will share with you the insight perspective of a group of fierce competitors working together for the first time, and how they succeeded in recovering a category that was in decline for more than 20 years.

Starting in 2009, I had the privilege to lead, as a full time consultant, Toma Café, The Colombian Coffee Consumption Program. The producers and roasters coalition that reactivated coffee consumption and achieved a 36% volume growth in 7 years, after a 40% contraction in the 20 years following the end of the ICO global agreement.



As a women, with a major in music, and a Fulbright Scholar with an MA in Mass Media, the creative thinking methodology that is so popular these days for unicorn startups has been with me all allong my career. As a banking and service industries' corporate executive for nearly two decades, I drove that creativity towards results. Observing patterns, designing solutions from deep understanding of people needs and desires, prototyping and creating systems to propel change and stimulate sustaible market growth became my expertise. A key to buildt my own way in an engeneer & finance male dominated system.

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But what is sustainable market growth?

Years ago it meant repeatable growth. Today, sustainable market growth means growth that is repeatable, ethical and responsible for current and future generations. On top of satisfying economical needs accross the system, it should protect and improve cultural identity, ecological esential processes, biological diversity and life support systems for the future. But is posible to build sustainable market growth in our competitive global capital markets?

The history of humanity replicates what is a fact in evolution: only the strongest survive and this also seems to be true in countries and businesses. To succeed you are suposed overcome, destroy and dominate competitors many times harming the very same system that supports your own success..

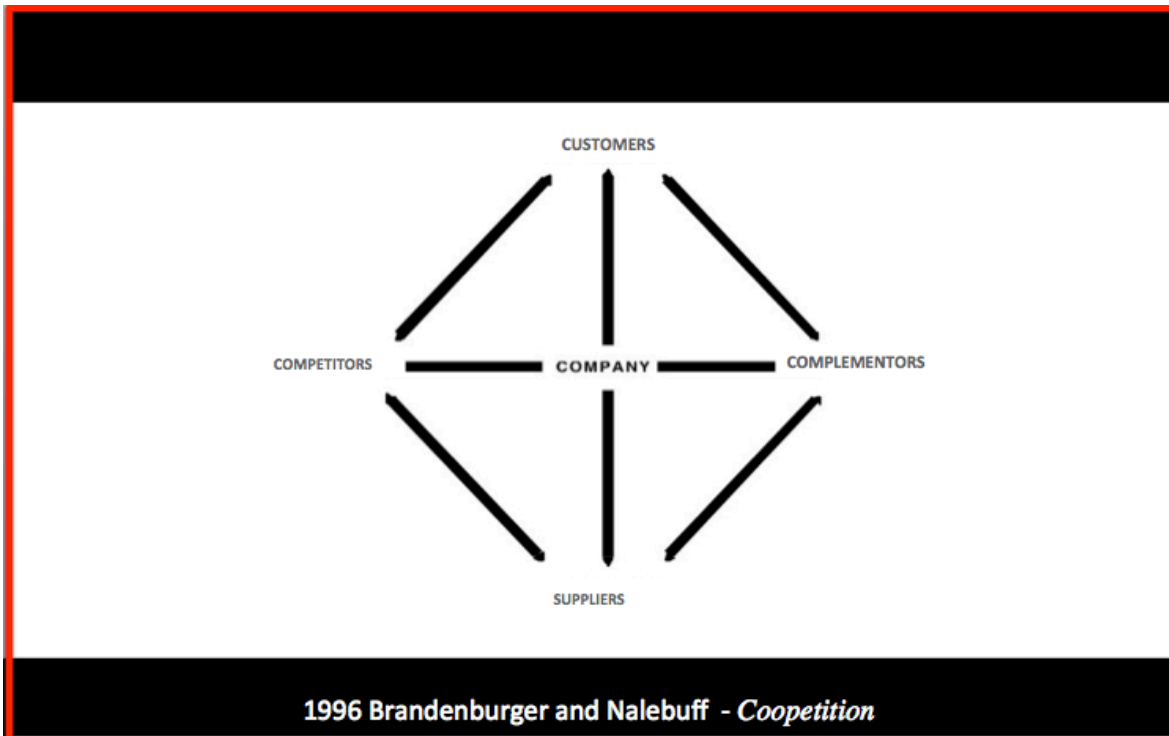
The bottom line? leading for sustainable market growth, is not about setting a shared vision for a cluster or an associtation and inspiring its members to go for it.

Markets are finite and require a sustainable developement in order to gain sustainable market growth.

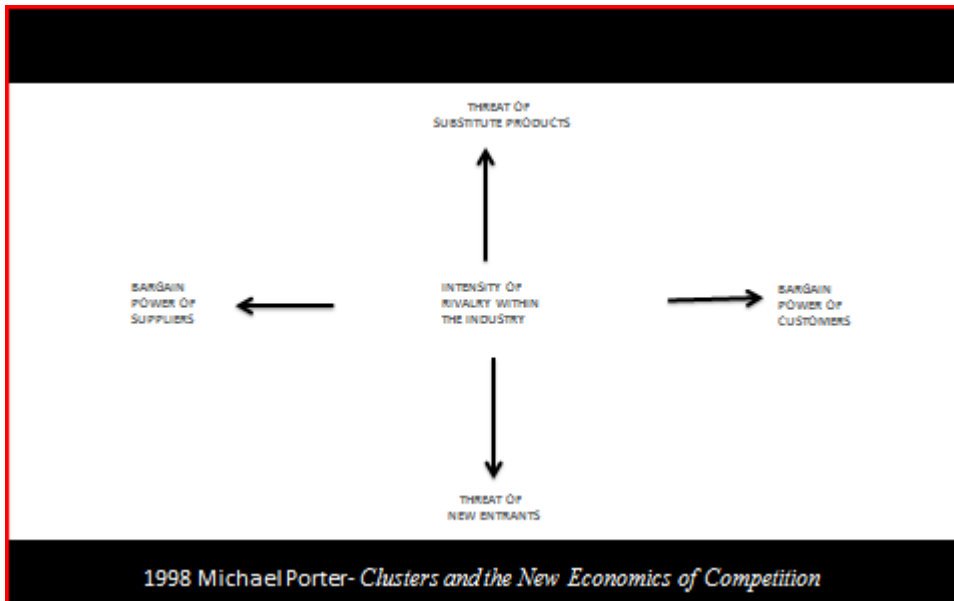


Let's briefly go over some seminal inspiring theories about human and corporate competition and development.

In 1960 Garret Hardin published his Armageddon work *The Tragedy of Commons*. Overpopulation depleting the earth's resources. The depredation of common goods for individual benefit. As the demand of the resources overwhelms the supply, every individual who consumes an additional unit directly harms others who can no longer enjoy the benefits. In our metaphor, the similar for cannibalization between competitors that harms the markets. For example think about price wars that undermined the product perceived value opening the way for substitute products.



In 1996 BRANDENBURGER and NALEBUFF published *Coopetition*. A game theory approach to business strategy. Coopetition is a linear and symmetrical model of operational collaboration between competitors, to create greater value together, usually in an area far from the final consumer. It increases efficiency and not always higher real or perceived value for the consumer.



Then in 1998, Michael Porter introduced “Clusterization”: the geographic concentration of interconnected companies and institutions working in a particular field. Efficiency, effectiveness and flexibility; a focus for many governments and multilateral organizations to increase productivity, driving innovation in the field and stimulating new businesses and growth. Clusters usually are lead by the major players voices and interests and not always spread growth and thrive into the complete system.




In 1990 ELINOR OSTROM published *Governing the commons: The evolution of Institutions for Collective Action*. A whiff of oxygen for those who look at sustainable market growth development and an inspiration for us who work in developing sustainable market growth.

Ostrom's research in Maine, Nepal and Kenia lead to the development of a set of design principles which have supported effective mobilization for local management of common pool resources in a variety of areas.

Just the opposite to Hardin who, back in the 60's, proposed resource regulation through government intervention or privatization as a solution to the depleting of shared resources

She was greatly supportive of a "bottom up" approach to issues; government intervention can be highly effective when supported by individuals and communities. Her work showed the importance of different institutions working together and as a necessary component in relation to the development of sustainable socio-ecological relationships.

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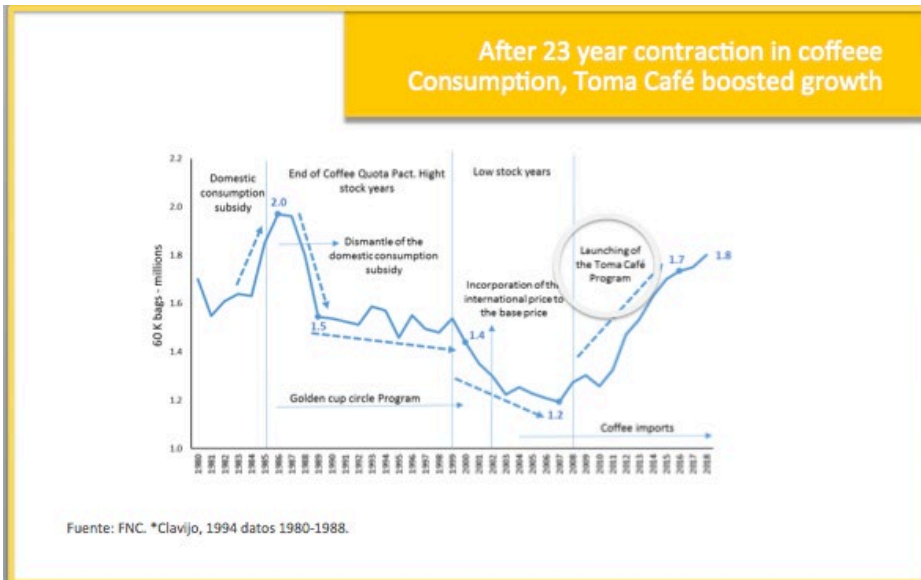


From a regulated offer to the
coordinated promotion of
coffee consumption

In 2009 Professor Ostrom was the first woman to be awarded the Economy Nobel Prize. That year we launched Toma Café. It took us almost two years to align around a common interest and create a value system centered in the consumer.

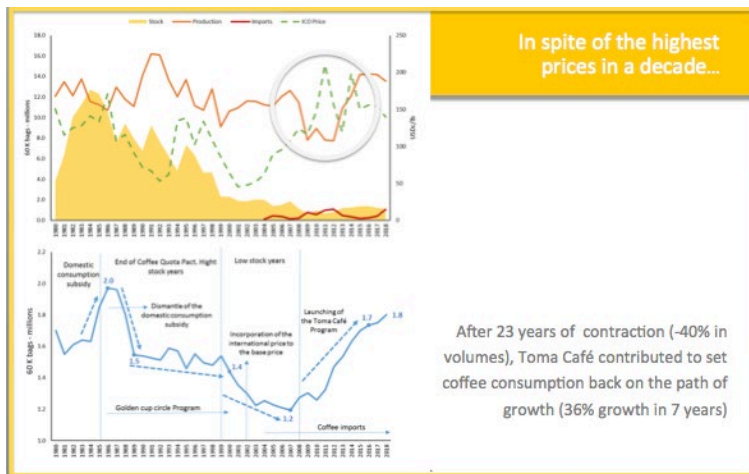
At times when it didn't seem possible to consolidate a team among this fiercing competitors, her work became an inspiration to overcome the centrifugal forces that threatened the newborn coffee coalition.

In the years to follow, we developed a powerful dynamic: the coordinated stimulation of effective demand, based on integration and innovation over free competition. It brought back high perceived value for coffee consumption and sustainable growth and benefits along the coffee system.



Toma Café, the Colombian coffee consumption program, broke a 23 years negative trend in coffee consumption. In the 2 decades following the end of the ICO global agreement coffee consumption shrank 40% in volumen sold. In 2008 the land of Juan Valdez was drinking almost half the coffee as 2 decades ago although its population had enlarged 40 percent bringing more than 10 million new potential consumers into the market.

From 2009 to 2016, in only 7 years, Toma Café , the roasters and the National Coffee Growers Coalition, achieved a 36% volume growth. Even after the end of the Program, in the recent two years, and additional 6% has been achieved thanks to the inheritance of the intangible assests built by the Toma Café. A powerful way to seize a crisis. A result only a strong coalition, operating over free competition could have achieve.



The consumption had been fed for decades. During the ICO agreement; from 1963 to 1986, Colombia reached high stock picks. The National Coffee Growers Federation created a domestic consumption subsidy. That was the reason why a complete Colombia's generation learned to drink free, highly roasted (what we use to call "reposado or rested" coffee, controlled by a few roasters. A highly regulated market.

By the end of the the ICO agreement, the local stock was 12 million bags when Colombians only drank approximately 1.6 million bags a year. The other 400.000 reported are said to come from ilegal exporting.

The first coup for consumption came in 1986 with a scientific study presented at the American Heart Association that didn't screen for smoking and linked coffee consumption to coronary Heard disease. This study went around the world creating serious health barriers particularly among doctors.

The second came with the dismantling of the domestic consumption subsidy in 1987. Then, the opening of the economy in 1991 brought numerous new beverages to the battle for stomach share. In 1999 the end of the high stock rose more the domestic prices . Finaly, in 202, and the incorporation of the international price to the local base price rocketed domestic coffee consumer prices.

In 2008, when Toma Café started, coffee retail price were 300% higher than what it was 2 decades ago. Short domestic stocks because of crop renovation programs and international coffee prices at its hights in 30 years worsened the market scenario.

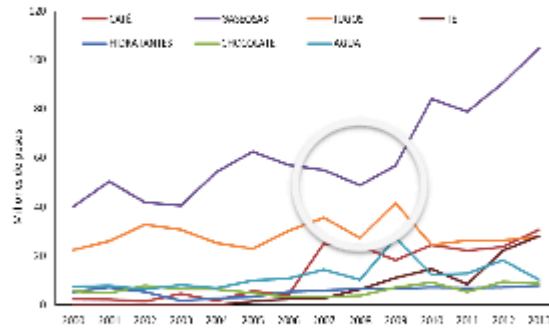
and the launching in an adverse environment

Nielsen Market Basket
Variation % same period previous year



Source: Nielsen Retail Index

Beverages
Publicity investment



Source: IBOPE Media

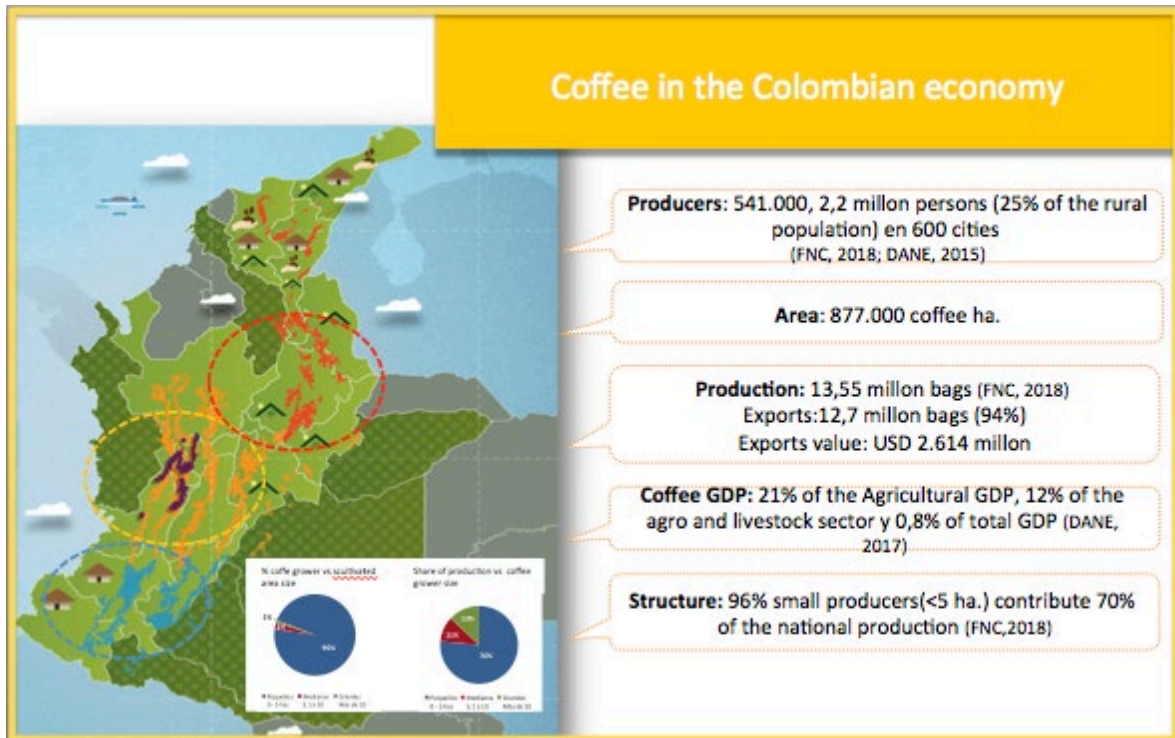
Integrative marketing



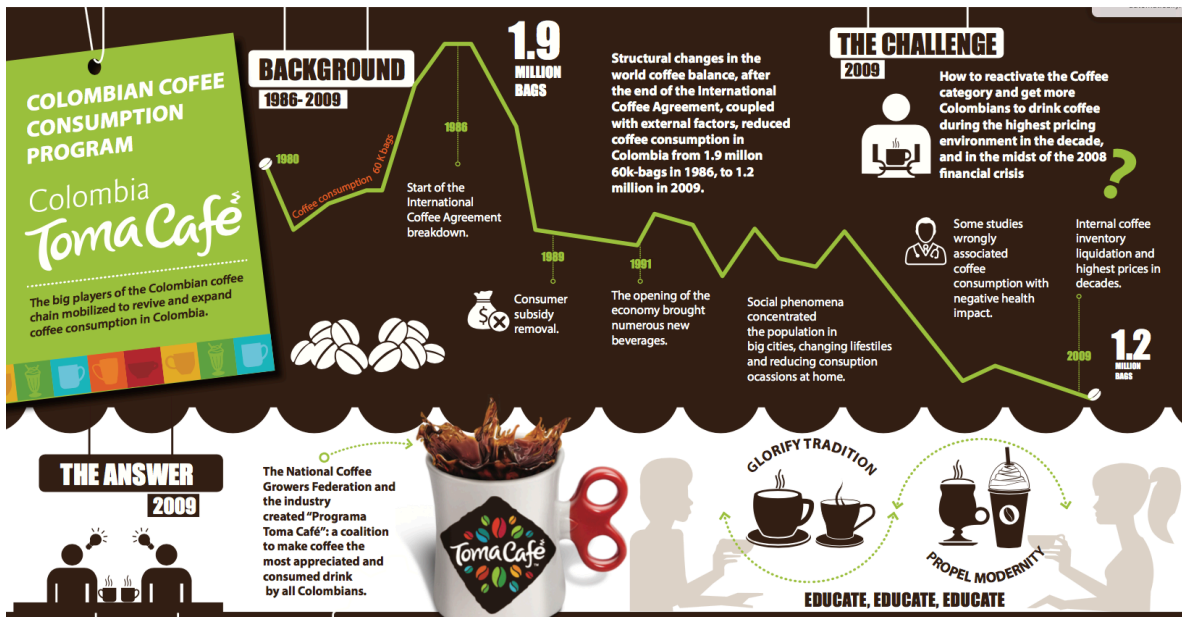
Moreover 2008 the global recession hit. The full market basket including the coffee category, had a severe deceleration. In mass media, soft drink investment was at a high slope growth looking for stomach share.

In addition, decades of guerilla and paramilitary drug trafficking and social conflicts were producing a massive internal displacement pushing rural people to the large cities where they lose their coffee high consumption habits.

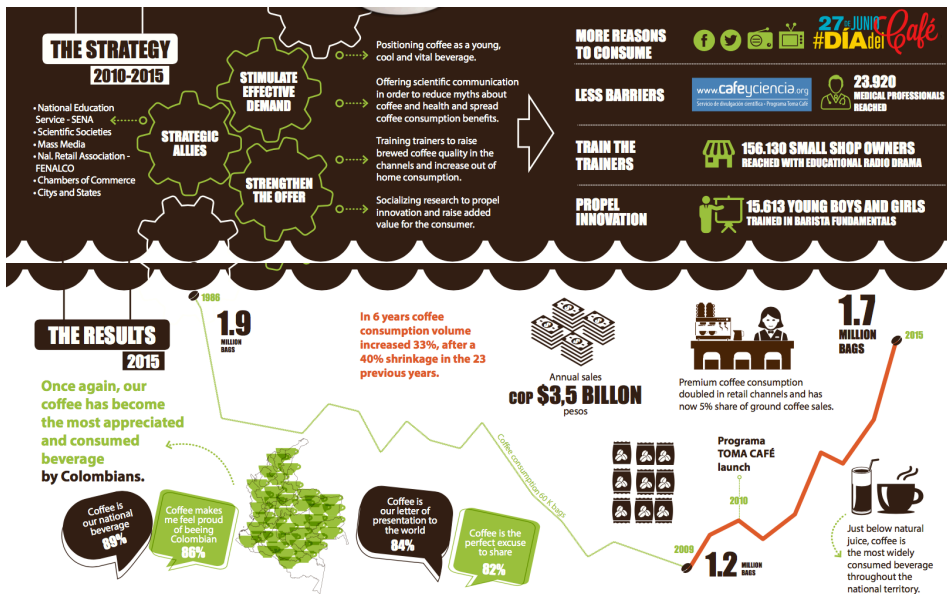
This was the crisis that raised a serious alarm call to the Colombian coffee chain members and gave way to the coalition.



A coffee coalition to raise consumption and contribute to dinamize the economy of a country where coffee production chain is the engine of the rural areas and a key retail product in the cities. Coffee in Colombia is the major labour generator: 96% of the 541.000 coffee growers families are small producers with less than 5 has. coffee crops. They are more than 2.2 million people, 25% of the rural population. In the cities coffee is present in 9 out of 10 retail shops, there are 250 SKUs and it is the more profitable beverage the owners of over 300.000 small family shops can sell. (Something few of them knew).



The kick off for the Program was a workshop hosted in 2008 by Luis Samper, the National Coffee Growers Federation CMO, and Jorge Arango Colcafé CEO (the leading local roaster own by the multilatin grupo GEA). Roasters and other members of the production chain gathered to share solutions for the difficult situation. Carlos Brando, was the facilitator. He played a key catalyst rol.



A fiduciary fund, a lightweight yet strong financial and operational structure allowed to dedicate 98% of the resources towards stimulating effective demand and strengthening the offer. A government system enabled debate and strategic decision making.

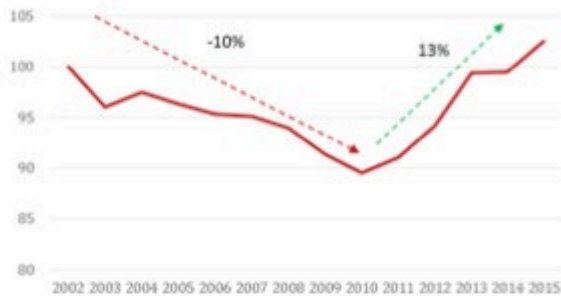
A board of Directors, conformed by the 4 leading roasters, the National Coffee Growers Federation and representants of more than 25 medium and small roasters and an Executive Director (my self), put in place a strategy with 2 axes (stimulate effective demand and strengthen the offer in the last mille. 4 forces were the impulse generators: promotion, education, research and innovation. It was about glorifying tradition and propelling modernity.

Both the US major associations' and Brazil's consumption programs, as well as other discipline social marketing programs serve as inspiration.

With Programa Toma Café not only did we reverse the contracting trend but we built sustainable category growth by changing consumption and buying behavior.

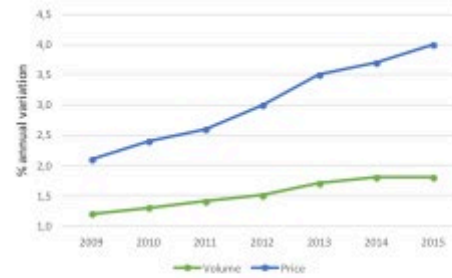
We reversed the trend and propelled consumption growth

Coffee Category consumption growth



Fuente: Nielsen Retail Index

Premium coffee growth



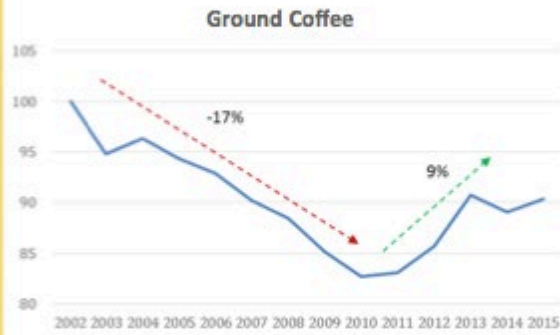
Fuente: Nielsen Retail Index

Integrative marketing

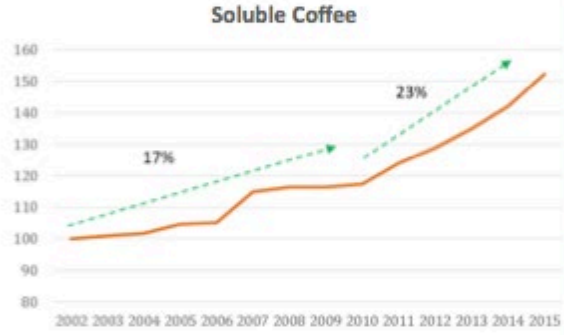


In 7 years, the retail channel contributed to a 13% growth in sold volumes vs a 10% decreasing in the 7 previous years – Premium coffee was the subcategory with higher growth with a 5% increased in sold volumen

Ground and soluble sub categories grew...



Source: Nielsen Retail Index

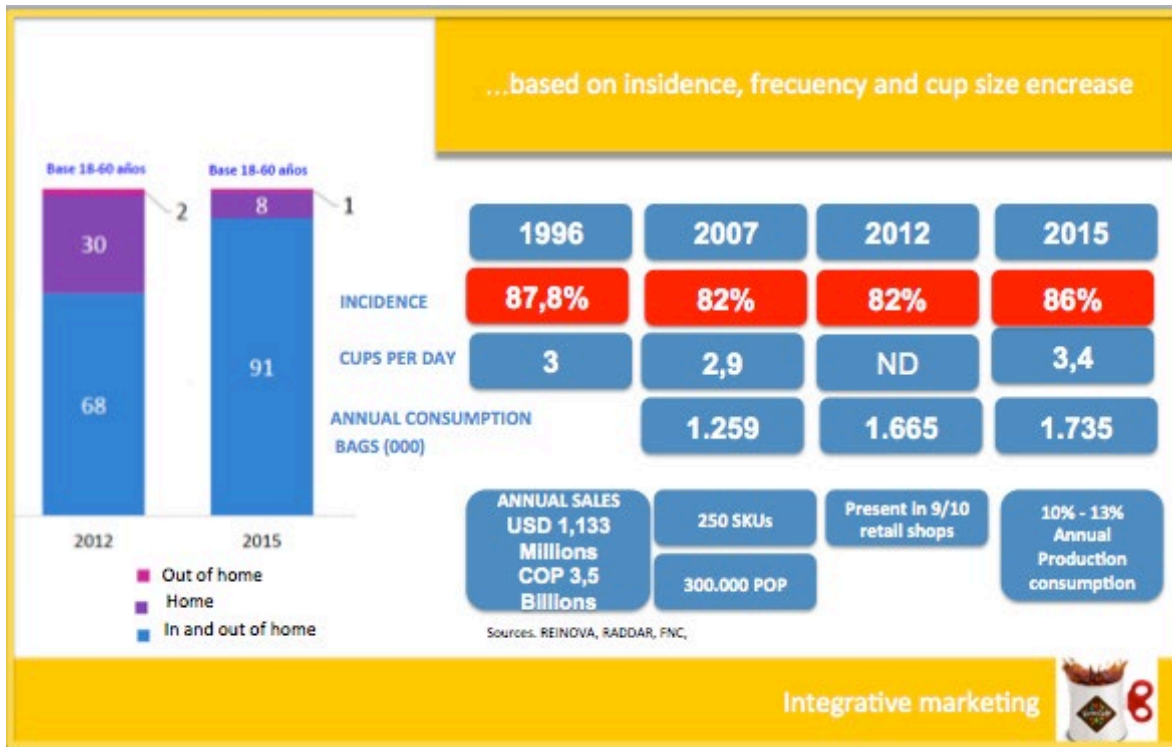


Source: Nielsen Retail Index

Integrative marketing



Both large sub categories grew but roasted and ground coffee, the traditional presentation, took the lead.

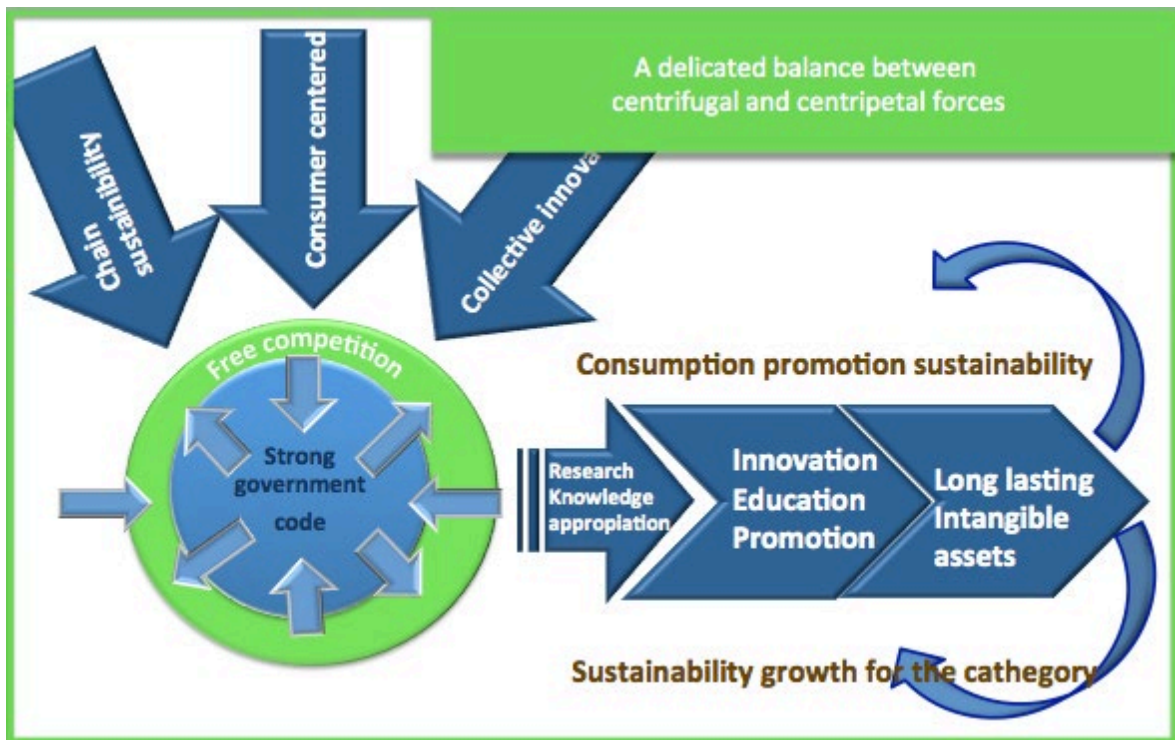


All key consumption figures grew: incidence, frequency and amount per cup. 30% more consumers entered out of home consumption playing a key part in the overall, overall consumption growth.



But how is it that Toma Café gained traction and reverse a two decades negative trend starting in the mist of a recession? What powerful model allowed a category that loose almost half its volumen in two decades to return to the growing path, now for 9 years in a row?

It is about what I've come to synthetize and call INTEGRATIVE MARKETING. A model I have been working with to develop sustainable markets for coffee and other categories, for communities and corporations.

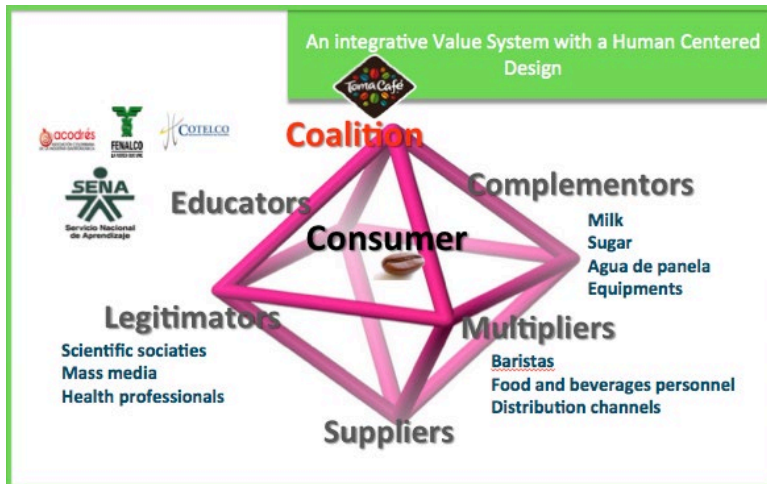


Integrative marketing at work produces value that can be captured by all and each player who is integrated to the category values system. It produces growth AND THRIVE for every stakeholder of the category.

Integrative marketing is composed of cooperation that goes beyond Porter's value chain clusterization or Brandenburger and Nalebuff operational cooperation.

Integrative marketing is also about human centered and bottom up design and development; and about collective innovation.

As in Ostrom's Governance of the Commons, Integrative Marketing implies a solid code of shared governance and a commitment to work base on free competition. Research and knowledge divulgation and appropriation from the value system members, propels innovation. Education both, inside the distribution channels and edutainment to the consumer, raise the coffee perceived value. Promotion stimulates effective demand. Long lasting assets are created to feed the members and the consumer creating a virtuous circle of sustainable growth.



Integrative systems are developed identifying and aligning the stakeholders personal and institutional interest always centered in consumer needs and desires. It is a two way value proposition or better a multi value proposition.

Integrative marketing is human centered. A concept critical in medicine where it makes the difference between life and dead. A practice I first adapted from Doctor Peter Provonost a Johns Hopkins MD. PhD. An incidental finding during a one year involuntary but highly personal and profesional enriching stay at this leading edge scientific organization.¹ I later found it in design thinking, the methodology developed in the 90's by David Kelly from IDEO.

¹ Inspired by a fatal death of a 4 year old girl at JHM ICU, and cross innovating from the aviation industry best practices, and turning the strict medical hierarchy up side down, without adding a single piece of equipment or spending an extra dollar, Provonost and his colleagues improved value across the health system saving more lives in the past decade around the world than any laboratory scientist. Provonost borrowed a concept from aviation industry, a check list to attack infections in patients with central intravenous lines improved. The key to the protocol adherence? A new bottom up rule: if doctors didn't follow every step, the nurses would have back up from the administration to intervene".

scientist. The protocol was applied close from where we are: in 2008 hospitals in rural Tanzania serving one million people. Without adding a single piece of equipment or spending an extra dollar, all eight hospitals saw the rate of major postsurgical complications drop by 36 percent in the six months after the checklist was introduced; deaths fell by 47 percent.




Integrative marketing is also about collective innovation. A concept coined by Linda Hill from Harvard University I first read when I was preparing this presentation. Hill studied for 16 years how companies like Pixar or Google developed their inner innovation. The patterns she describes closely match the innovation dynamics we achieved at Toma Café. Instead of doing it inside a company, we did it across the value system of the category.

We innovated by using what Hill describes as creative abrasion, agility and resolution. Strong interdisciplinary debates and gamification workshops that amplified and constructed arguments contributing to the co creation of human centered solutions.

It was key to involve the young executives from the coalition to have both diversity and sane conflict and neutralize the top executive ego distracting forces. Creative agility is about testing and refine those powerful ideas that came out of debate. And creative resolution is

about inclusive decisión making. Not letting one individual dominate even if he or she is the boss. Is about making decisions that may add opposite views.

From the 4th year on, collective innovation allowed us to develop high impact strategies and content products with low budget. A sample of this kind of dynamics is in your hands: a printed and radio educational soap opera, to promote coffee sales and service best practices, reached more than 150.000 small coffee shops around the country. Or the Manual for preparation and sales to teach small shop owners. It was base on ethnographic research, co-designed in one month, on terrain, with the industry sales forces, the shop owners and baristas trained to teach. We just followed the findings of the research and the opportunities and barriers shown by the users.



**The Strategy and the Tactics:
Building long lasting assets for
the category allowed the
Program to survive the
coalition**

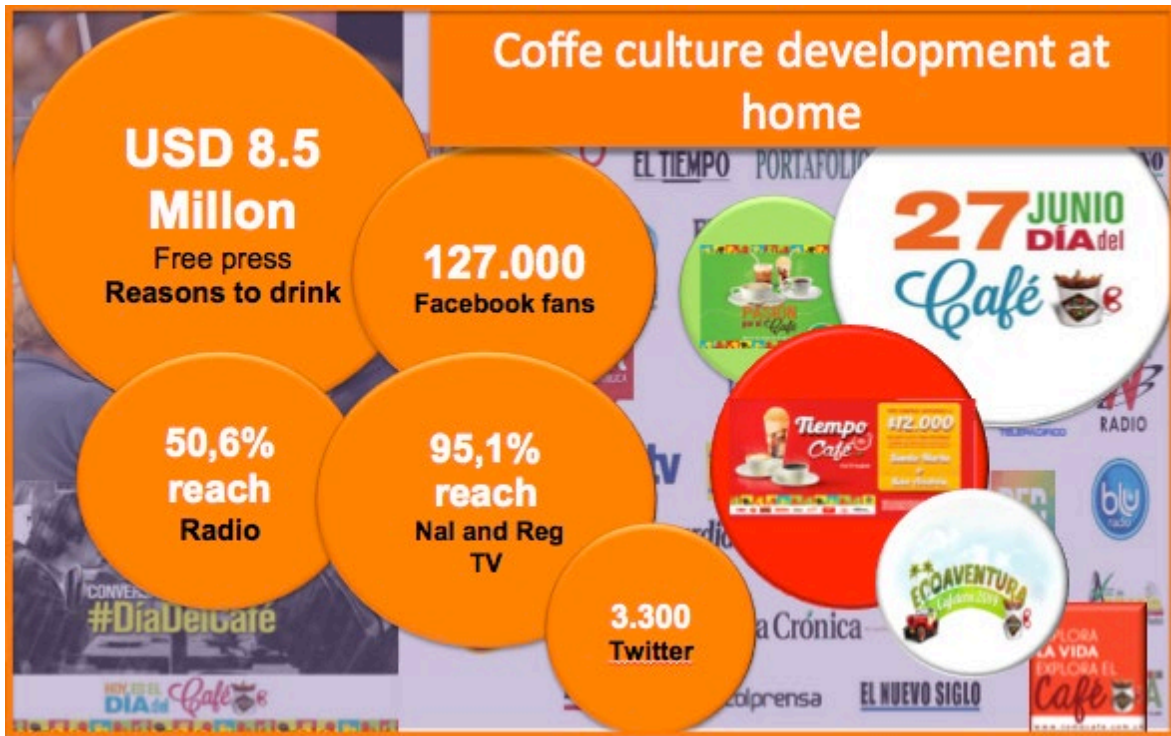
Toma Café strategy was based on a network of allies, a value system to maximize resources and optimize the scope and reach



The strategy had two main axes stimulating effective demand and strengthening the coffee offer in the last mile. To stimulate demand we created our own communication network to bring more reasons to consume and reduce the barriers. To strengthen the offer we did research, developed syndicate data and worked for it to be appropriated among the system actors.

We targeted low and médium consumers. Heavy mature consumers were targeted and educated to become multipliers of coffee culture.

The 4 tracks were consumer centered: more reasons to drink; lowering consumption barriers; offering the roasters and the value system knowledge about the market and the consumer and leveraging the beverage competitiveness by educating the people in the distribution channels.



In promotion the impact was immense. We developed a mass media agenda with a network of 800 journalists in national TV, radio and printed media. Edutainment campaigns throught social networks, glorifying tradition and stimulating emerging consumption patterns, reached millions of youngs, thus promoting coffe culture and consuption. No other category achieved such high return of investment in such a short time. The cost of our PR was USD 250.000 and we produced USD 8.5 Million in relevant press content in the main mass media.

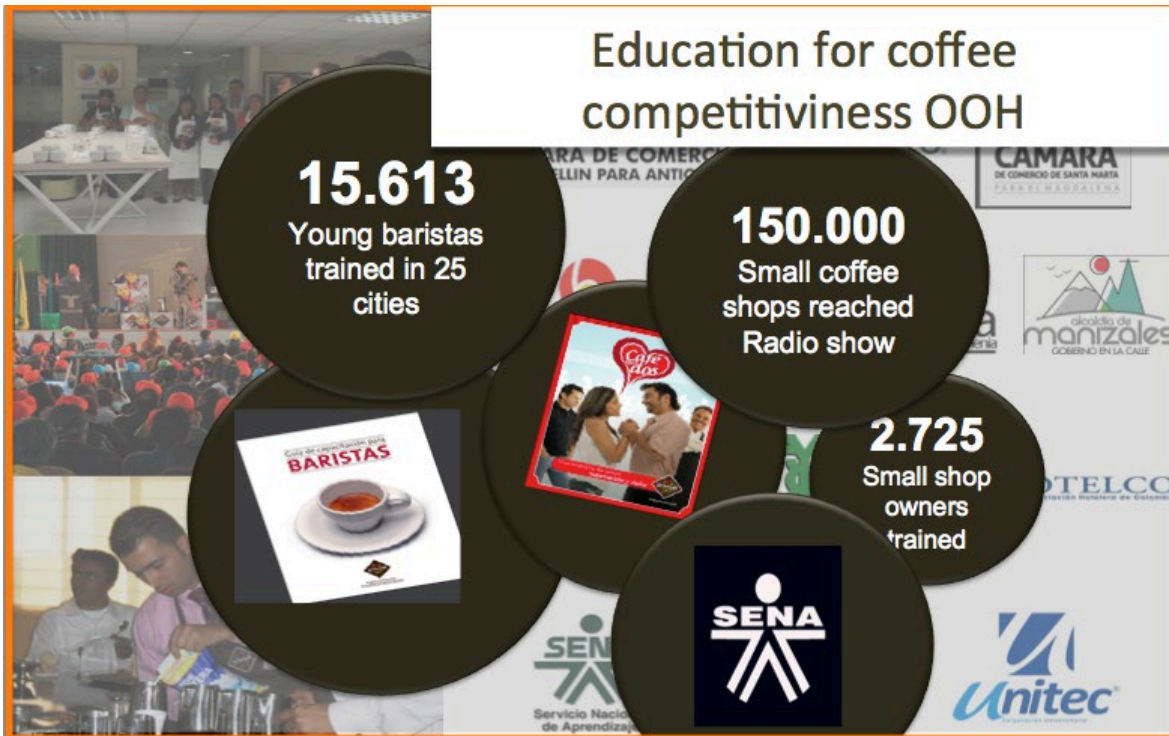


To lower coffee and health myths and raise awareness about the recently discovered benefits of coffee consumption, we developed *Coffee Science*. This scientific communication service was designed to bring Medical Professionals and science journalists closer to the coffee and science sources. We trained 120 journalists in coffee and science topics with world renowned Medical researchers. And, thanks to agreements with the scientific associations, we reached 24,000 health professionals who listened to outstanding coffee and health researchers from around the world, invited by *Coffee Science*. These professionals became legitimators in front of the final consumer. The web page CafeyCiencia.org became the main hub in Spanish for coffee science communication to the final consumer. The result: research showed that not only myths disappeared but the benefits of regular and moderate coffee consumption are now known for a large percentage of the adult population in Colombia.

This strategic track was inherited by Colcafé, the multilatin roaster with the highest local market share who keeps it alive and running with the promise of never attaching its brand to it.



To understand consumption & purchase behavior and traditions, monitor demand and the substitute categories offer, Toma Café had a research track with syndicated and tailor made studies. The socialization of this findings among medium and small size members of the industry who didn't have previous access to this data because of economic reasons, improved market decisions and nurtured the industries own innovation initiatives adding value to the final consumer, thus leveraging coffee competitiveness vs the substitute beverages



To promote out of home consumption, improve the quality of the coffee beverage, and boost the introduction of cappuccino, frappe and other beverages with more coffee grams per cup, we articulated an education program with the National Learning Service, the Chambers of Commerce and the State and Municipalities Economic Secretaries. 15.613 young people from hotels, coffee shops and cafeterias received barista training and 2.300 small shop owners too. Complementary training promotes competitiveness in the last mile of coffee chain, leverages the labor capabilities of trainees and shows prepared coffee high profitability to the shop owner. This strategy turns the barista and shop clerk into the best multiplier of a positive coffee consumption experience. The best vehicle to stimulate higher demand. This strategic track was inherited to the National Learning

Service who is currently graduating 2.500 baristas a year and included 120 hours of barista courses in the curricula of the 16.000 food and bar administrators they graduate each year.



Back in 2008 a severe crisis led Colombian roasters and the National Coffee Growers Federation to the creation of Programa Toma Café. Seven years of coordinated stimulation of the demand over free competition and of investing in the beverage offer propelled coffee consumption making it back the preferred and most consumed hot beverage in Colombia.

This days, more than ever, it is key to raise coffee perceived value and desire, among new generatios in order to receive the emotional preference from the consumer and gain stomach share. In this challenge, it makes sense to make effective demand stimulation a top priority inside the ICO. Lets think for a moment what a sustained coordinated work towards stimulating global coffee consumption can do.

For this purpose, I want to offer 3 recommendations:

1. Seize the crisis.

Crisis are the best propellers of disruptive innovation. Use the over offer/low price current situation as a lever to align interest, both personal and corporate and put in place a long term coffee demand stimulation strategy at the ICO. Increasing coffee consumption is about changing consumer behavior. Consumption patterns are developed early in life and years to change them. A consumption coffee effort has to be one of the ICO core strategies, it has to be a continuous, sustained strategic work, not a tactics fire fighter.

2. Think Big.

Go for the countries (producers AND importers), that have growing populations and start by those that thrive. Design a couple of prototype programs to stimulate effective coffee consumption demand that can be locally adapted. Include World class market and consumer research and syndicated data to monitor growth. Understanding consumption and purchasing behavior is key and measuring the consumption evolution is indispensable. Traditions and insights can be locally researched. To have short term results and gain patience from the sponsors, go for raising frequency goals. For the mid term target higher amount per cup and for the long term reach to the new generations in order to increase incidence.

Once the countries that lead consumption are on board, the others will follow.

3. Think black rather than green.

Ensure commitment from global and regional decision makers inside the industry and the governments. Position the programs to stimulate coffee consumption as a long term strategic priority. Show them the ROI that an effective strategy can bring both in EBITDA and in social and economic impact. They will then think about these programs as an investment and not an expense.

Local budgets come from the marketing areas that have an inverse dynamic to what we need. They are oriented toward short term results: they are shortened to achieve forecasted P&L when consumption (and thus sales), are low. And when sales are high, the pressure to promote long term consumption lowers and other priorities appear.

Developing tools like a Promotion Guide to Producing Countries might help. But, in the long run, only when the industry changes their mindset towards demand stimulation, shifting from selling green beans to winning the battle for stomach share with black coffee, will powerful consumption engines like Toma Café stay in time.

SURPRISE #1

Africa is the youngest continent.



I want to finish with a comment inspired in Bill and Melinda Gates 2019 annual letter. Thought the global age is on the rise and people are living longer in every part of the world, Africa stays (nearly) the same age. In Colombia the median age is 31. In Africa it is 18. While it might be seen as a source of instability it can also be seen as an asset. Bill and Melinda gates believe that with the right investments Africa will unlock an enormous potential. I too believe that young Africans will shape the future not only to their own communities but the entire world.

Let's harness the creativity of the coffee value system towards innovation and unleash the educated consumer power, to help shape the future of 25 million coffee growers together.

Thankyou,

Ana Sierra

