Breaking Up Over Coffee

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Breaking up is a very delicate art with so many intricate details. There is the venue — do you do it over the phone or in person? If you do it in person, should you do it over dinner, or maybe something shorter like a cup of coffee? The café breakup is often a popular choice. It’s short and sweet, and let’s face it, the pang of heartbreak may be slightly lessened by ingesting legal stimulants.

However, breaking up over coffee isn’t always so pleasant, especially when it involves ending a 12-year relationship worth upwards of $500 million. Earlier last month, Starbucks announced its intent to end its 12-year packaged coffee agreement with Kraft [1], deciding to venture into self-distribution. Needless to say, Kraft was none too pleased and quickly released this statement:

“Kraft Foods' agreement with Starbucks regarding the sale of packaged coffee in grocery stores and other channels is perpetual. Importantly, if Starbucks decides to exit its relationship with Kraft Foods, the agreement requires Starbucks to pay Kraft Foods the fair market value of the business plus, in certain instances, a premium. Kraft Foods intends to keep the discussions with Starbucks private and will not be providing further details or comments at this time.”

Perpetual? Really, is there anything that lasts forever anymore? Whether it’s marriage or some other contractual obligation, isn’t there is *always* some way to get out of it? The bust-up has some consumers asking whether a large company like Starbucks would be silly enough to agree to such terms. Why would Starbucks sign a contract to pay Kraft for services even after it stopped using them? This sounds a lot like a plea for alimony to me.

Naturally, Kraft’s statement got Starbucks riled up, and it quickly fired back: “We

consider it unfortunate that Kraft has chosen to make public statements that we believe mischaracterize the nature of the agreement between our companies, including the term of the agreement."

So much for a private breakup.

As when all relationships come to an end, there will be ramifications for both parties. Besides taking the plunge into self-distribution, Starbucks is also planning on releasing its own single-cup coffeemaker in the future. This in itself could mean a giant shakeup in the coffee industry. Green Mountain Coffee Roasters currently has a near monopoly on the single-cup business with its Keurig machines, and its shares fell 4 percent after the Starbucks announcement.

As for Kraft, its days in the coffee industry may be numbered. Kraft produces its own Tassimo single-cup brewer, for which Starbucks supplied coffee pods. If and when Kraft loses Starbucks, Tassimo could be in jeopardy. Kraft could also seek to unload its Maxwell House brand, which, according to speculation, could ultimately end up in the hands of Sara Lee, which recently sold its North American baking unit to focus more on coffee and meat [2].

If Sara Lee decides to start courting Kraft for Maxwell House, this breakup has all the makings for a full-blown love triangle. Either way, it will be interesting to see how the distribution contract pans out. In fact, depending on the outcome, you could be part of the fun. If Kraft wins the argument, your next Starbucks purchase could help pay the alimony. Ah, the smooth, slightly bitter taste of coffee breakups.

What do you think about this coffee breakup? Should Starbucks have to pay Kraft just for the privilege of going it alone, or is Kraft just whining? What do you think this will do to the coffee industry? Let me know at lindsey.coblentz@advantagemedia.com *[3].*

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