

MEMORANDUM

TO: Professor Kirchner

FROM: Carla Contreras, Kate Williams, Morgan Cancel, Ethan Park, Daniel Cavey,
Ryan Palmeiro

DATE: March 28, 2025

SUBJECT: Should our company change its pricing to compete with our competitor's new blend?

Introduction

Our company is evaluating whether to change the price of our coffee blend due to the introduction of a new entrant in the market. Our competitor offers customers a coffee blend that resembles our packaging at a cheaper price. Before making any decisions, we must consider factors such as cost and profitability, brand differentiation, and customer loyalty. By considering these factors, we can ensure that our decision is in the best interest of our company's future.

Cost & Profitability

Analysis of cost and profitability are key to figuring out if we can lower our prices of coffee to compete with our new competitor's cheaper blend without compromising our profits. We need to look at the costs involved in producing our coffee, including sourcing, roasting, packaging, and distribution, and compare them to our competitors' cost structure. If we find that our margins are too tight, lowering prices could hurt the business, and we might choose not to compete on price. However, if competitors' low prices are sustainable because they have lower costs, we may need to find ways to cut our costs or explore other strategies to stay profitable (Rafi, 2018). Understanding the math behind all these financial details will help us decide whether adjusting prices is a prudent choice.

Brand Differentiation

When determining whether to change our coffee blend prices due to competition, it is important to take into consideration how our company differs from our competitors. A major component of brand differentiation is within the product itself. While our competitor's coffee blend may closely resemble ours at a lower cost, the value of a product extends beyond the packaging. Elements such as quality, sourcing, and flavor contribute to the price of a product. If our coffee blend is crafted with higher-quality ingredients than our competitor's, lowering our prices undermines our quality. However, if our competitor's coffee blend is a close substitute for our product, then failure to integrate brand differentiation strategies can put us at risk of losing customers due to cheaper alternatives (Gayan, 2024).

Furthermore, we must look at the authenticity that our brand name and coffee hold to see if the coffee serves the audience we hope to collect. If our brand does not serve as an authentic brand or have any relevance to our market customers, then we must decide if changing the price to be more effective against our competitors is the best course of action. In situations where there are no

differentiating factors outside of pricing and packaging, then we may greatly consider the effects that a price change may have. However, if we have differentiating factors in the product or the brand influence outside of the packaging, we must greatly consider alternatives to retain any uniqueness (Paun 2018).

Customer Loyalty

In response to the new competitor's lower-priced coffee blend, it is critical to consider customer loyalty. Coffee drinkers who are loyal to a particular brand may prioritize quality, taste, and overall experience over the price. If our customers are highly loyal, they may less be likely to switch to a different cheaper competitor, even if the prices are lower. Understanding where our customer loyalty stands will help us determine if we need to lower our prices or if we can continue to maintain premium pricing based on the value and experience our coffee offers. However, if loyalty is weak, we may need to consider price adjustments or strengthen our brand to retain customers (Maduretno, 2022).

Before adjusting our pricing, we should explore alternative approaches that leverage current customer loyalty while attracting potential customers, strengthening our competitive edge over the new company. Rather than changing prices, we could implement strategies that incentivize customers to return to our brand, increasing our sales revenue. Currently, customers are attracted to brands that provide them with "benefits with tangible value... and exclusive experiences" (BCG, 2025). By offering an enhanced experience, our current customers will feel more attracted to our brand than our competitors. While lowering prices is an option to stay relevant in the markets, it is important not to lose sight of methods that capitalize on customer loyalty.

Closing/Next Steps

We have successfully completed the research and look forward to your feedback. If you need any additional information to help assess your decision, please don't hesitate to contact us. We are happy to assist you in your decision-making process in any way we can.

References

Crouch, E., Eppler, B., Taylor, L. & Hearne, E. (2025). Loyalty programs are growing-so are customer expectations. BCG Global. <https://www.bcg.com/publications/2024/loyalty-programs-customer-expectations-growing>

Gayan, G. (2024). What is a Differentiation Strategy? It's Types, Benefits, and Examples. Vantage Circle. Retrieved from <https://www.vantagecircle.com/en/blog/differentiation-strategy/>

Mohammed, R. (2018). The Good-Better-Best Approach to Pricing. Harvard Business Review. Retrieved from www.hbr.org/2018/09/the-good-better-best-approach-to-pricing

Paun, G. (2024). Brand Authenticity: Why Differentiation Is a Game Changer. Retrieved from <https://www.forbes.com/councils/forbesagencycouncil/2018/11/16/brand-authenticity-why-differentiation-is-a-game-changer/>

Maduretno, R. 2022. Exploring the Effects of Coffee Shop Brand Experience on Loyalty: The Roles of Brand Love and Brand Trust. ResearchGate. Retrieved from www.researchgate.net/publication/364200162_Exploring_the_Effects_of_Coffee_Shop_Brand_Experience_on_Loyalty_The_Roles_of_Brand_Love_and_Brand_Trust.