

# UPTON TEA QUARTERLY

Vol 25 No. 3

Holliston, Massachusetts

Summer, 2016

## Reversals of Fortune in the Tea Industry

### Part XL: Merger Mania



The Starbucks acquisition of *The Coffee Connection* is now over two decades old. However, many of us still have fond memories of the original store in *Harvard Square*.

*The Coffee Connection* name and logo are now owned by Starbucks

A cartoon in *The New Yorker* once depicted an array of stores in a two-story shopping mall, as viewed from the opposite side of the mall. Every store except one had a *Starbucks* sign over the entrance. The single store with no sign above the entrance had a simple sign in the window that read, “Coming Soon, *Starbucks*.” Is it inevitable that one day *Starbucks* will capture the entire worldwide coffee market? Not if *JAB Holding Company*, the world’s largest coffee conglomerate, can help it!

Please turn to page 48.

Upton Tea Imports will be closed for our annual vacation from July 4 through July 8. All orders received by June 30 will be shipped by July 1. We will also be closed FRIDAYS August 5 through September 2 so that our staff can enjoy a little extra time off!

## ***Reversals of Fortune in the Tea Industry, Part XL***

Founded by George Howell in 1975, *The Coffee Connection* was a prototypical overnight success. Located in the heart of Cambridge's *Harvard Square*, Howell's first store became a caffeine bethel for students, professors, tourists and anyone who worked within a few (or more) miles of *The Square*.

George Howell effectively introduced New England to the West Coast coffee revolution, which began nearly a decade earlier when Alfred Peet opened his first store in Berkeley, California on April 1, 1966.

Just like Alfred Peet, George Howell recognized that the American tea market was even more poorly served than the coffee market. Even though it accounted for less than ten percent of beverage sales, *The Coffee Connection* offered a credible variety of quality loose leaf teas.

When *Starbucks* acquired *The Coffee Connection* in 1994, they agreed to keep the original signage for two thirds of Howell's stores for a period of two years. It was also agreed that Howell was to be the sole source of all of the coffees sold in stores that carried *The Coffee Connection* signage. Not only did this ensure brief continuity to George Howell's legacy, it also afforded him an opportunity to develop closer connections with coffee growers. This paved the way for his next venture, which he undertook once the terms of his non-compete agreement expired.

*Starbucks* was keen to establish a foothold in New England, so signage for the flagship *Harvard Square* store was changed promptly, along with that of other prominent locations. No provisions were made for continuity of the tea menu, so the line of teas formerly offered by *The Coffee Connection* was promptly replaced by the *Tazo* brand, which had just been acquired by *Starbucks*.

Almost immediately, tea sales at *Upton Tea Imports* increased by twenty percent. In order to quell the disruptions caused by dis-

gruntled tea customers, *Starbucks* baristas were instructed to give those customers the phone number of *Upton Tea Imports*. It seemed like a grand scheme until *Upton Tea Imports* started receiving calls from newly acquired tea customers who observed that the teas they had just received were not really the same as those they had been getting from *The Coffee Connection*. Most notably, *The Coffee Connection's* Earl Grey tea, along with a few other flavored teas, generated the greatest angst.

It didn't take long to figure out what was happening. The principal source (perhaps the only source) of teas for *The Coffee Connection* happened to be the U.S. agent for a German tea company that *Upton Tea Imports* also used for several teas. Even then, however, *Upton Tea Imports* had several sources of tea. Our Earl Grey tea was supplied by a boutique British blender that supplied specialty tea shops in the U.K., Canada, Australia and Japan. Our flavored teas, in most part, were supplied by a German tea blender, but not the same German tea blender that supplied *The Coffee Connection*. The subtle differences in flavor profiles of these teas were not especially subtle to tea enthusiasts who daily enjoyed their favorite tea.

Things soon became even more complicated. Not only had George Howell been sourcing his Earl Grey tea from a different tea blender, we learned that his Earl Grey tea was a custom formula that he had developed exclusively for *The Coffee Connection*. There was no other recourse; *Upton Tea Imports* added a new Earl Grey tea to its catalog, while retaining our original English Earl Grey to assure continuity of that tea's unique flavor profile.

Which Earl Grey tea is better? This is a subjective determination for every individual. Some tea drinkers loathe the very scent, while others drink it daily. The fact that no single Earl Grey tea is preferred by all Earl Grey tea drinkers attests to the complexity and marvels of the human palate!

Two decades have passed since the demise of *The Coffee Connection*. George Howell, however, jumped back into coffee as soon as his five-year non-compete agreement expired. It began with selling his distinctive *Terroir*<sup>®</sup> Coffee online at *georgehowellcoffee.com*. Since then his venture has expanded into coffee cafes bearing his name. A third store will be located in *The Godfrey Hotel*, scheduled to open in winter 2016.

A recent phone conversation with George Howell gave the writer a chance to reflect on the rewards and challenges of entrepreneurship, and the folly of attempting to grow a successful business too fast. Fearing the inevitable competition that *Starbucks* would bring to the New England coffee market in the mid-1990s, Howell had taken on venture capital. This provided the funds to grow rapidly, but with that he lost control of his company. Howell will not make the same mistake this time around. While he would welcome another investor for his expansion, he insists he will not relinquish control. Any investor in *George Howell Coffee* will have to be content as a silent partner.

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The purchase of *The Coffee Connection* was only one of many *Starbucks* acquisitions that were solely intended as the procurement of new store locations for the expansion of the *Starbucks* brand. Other acquisitions within the coffee and tea industry have had a very different objective, which may be simply defined as a “brand acquisition.” Such acquisitions are done by entities that perceive untapped potential in an established brand. One of the most active entities in this arena is Luxembourg based *JAB Holding Company* (*JAB*), with offices in London, Mannheim, and Washington, DC.

*JAB* acquired *Peet's Coffee and Tea* in 2012, and subsequently added *Mighty Leaf Tea* (2014), followed by *Stumptown Coffee Roasters* and *Intelligentsia Coffee* (2015), all under their *Peet's* subsidiary. Roughly two months after acquiring *Peet's*, they signed a

deal to purchase Minnesota-based *Caribou Coffee*, which had over 600 stores operating in 22 states and 10 countries.

Most recently, *JAB* acquired *Keurig Green Mountain*, and with *Jacobs Douwe Egberts*, *JAB* controls a network of brands in over 100 countries. Those brands include *Jacobs*, *Tassimo*, *Moccona*, *Marcilla*, *Merrild*, *Kanis & Gunnink*, *Jacqmotte*, *L'ARÔME*, *Moka*, *L'Or*, *Pickwick*, *Caboclo*, *Damasco*, *Harris*, *Prima*, *Omnia*, *Senseo*, *Douwe Egberts*, *Kenco*, *Pilão*, *Bach Espresso*, *Bravo*, *Maison du Café*, *Hornimans*, *Tea Forté*, and *Gevalia*. Their Nordic brands, *Baresso Coffee* and *Espresso House*, add to their long list of premium labels worldwide, but the list doesn't end there.

The contrast between the single *Starbucks* brand and the collection of premium brands assembled by *JAB Holdings* is striking. With the former, the original identity of the acquired company, such as that of *The Coffee Connection*, was replaced by the *Starbucks* identity. With the latter, the unique identity of the acquired brand is preserved to capitalize on the good will that the brand has captured from loyal customers.

Preserving the identity of a brand is an impossible challenge as a single-store, owner operated cafe grows into a national (or worldwide) chain. Both *The Coffee Connection* and *Peet's Coffee and Tea* are prime examples of this reality. That one brand is history and another lives on is merely a matter of fate.

Brands that survive for decades, and even centuries, invariably evolve over time. One of the most interesting examples of this is the evolution of the *Douwe Egberts* half of the *Jacobs Douwe Egberts* brand mentioned above.

The origin of *Douwe Egberts* dates as far back as 1753, when a gentleman by the name of Mr. Egbert opened *The White Ox*, a small grocery shop in Joure, Netherlands. In 1780, ownership of *The White Ox* was transferred to his eldest son, Douwe, who expanded the operation into a trading company, specializing in *White Ox* branded coffee, tea, and tobacco. By the 1920's, the company was

renamed *Douwe Egberts* and its coffee and tea products were rebranded under the *Douwe Egberts* label.

The *White Ox* “roll-your-own” tobacco brand was retained and, through various acquisitions, *Douwe Egberts* tobacco labels eventually included *Amphora*, *Drum*, *Winner*, and *Van Nelle*. In 1969, *Douwe Egberts* acquired *Kanis & Gunnink*, a competing Dutch coffee company.

In 1978, the entire *Douwe Egberts* operation was acquired by *Consolidated Foods Corporation (CFC)*. Wait a minute! Wasn't *CFC* originally *C. D. Kenny*, the Baltimore company that was sued by *Martin Gillet & Co., Inc.* for trademark infringement (*Reversals of Fortune in the Tea Industry*, Part XXVIII)? To put everything in perspective, a time line of merger and acquisitions of *Sara Lee Corp.*, published at *funduniverse.com*, provides some details:

1939: Nathan Cummings buys *C. D. Kenny Company*, a small wholesale distributor of sugar, coffee, and tea based in Baltimore.

1942: Sprague, Warner & Company, distributor of canned and packaged food, is acquired; company relocates to Chicago and is renamed Sprague Warner-Kenny Corporation.

1945: Company changes name to Consolidated Grocers Corporation.

1946: Company goes public with a listing on the New York Stock Exchange.

1954: Company changes name to Consolidated Foods Corporation (CFC).

1956: The Kitchens of Sara Lee, maker of frozen baked goods, is acquired; CFC also acquires 34 Piggly Wiggly supermarkets.

1966: Under order from the Federal Trade Commission, CFC agrees to divest its supermarket division; the company acquires its first meat company, *E. Kahn's Sons Company*, and its first nonfood company, *Oxford Chemical Corporation*.

1968: CFC enters the apparel industry with the purchase of Gant shirts.

1971: Hillshire Farm is acquired.

1978: CFC acquires *Douwe Egberts*, a Dutch coffee, tea, and tobacco producer.

1979: The hostile takeover of undergarment maker *Hanes Corporation* is completed.

1984: *Jimmy Dean Meats* is acquired.

1985: CFC changes its name to *Sara Lee Corporation*; the company acquires the foreign subsidiaries of *Nicholas Kiwi Limited*, an Australian maker of shoe care and other products, and also buys *Coach* leatherware.

1987: Dutch household goods conglomerate *Akzo* is acquired.

1991: Undergarment maker *Playtex* is acquired.

1998: *Sara Lee* sells its tobacco unit to *Imperial Tobacco Group*.

1999: Company acquires coffee brands *Chock Full o' Nuts*, *Hills Bros.*, *MJB*, and *Chase & Sanborn*.

2000: Company acquires *Courtaulds Textiles plc*, leading seller of intimate apparel and underwear in the United Kingdom; partial interest in *Coach* is sold through an IPO; food-service distributor *PYA/Monarch* is sold for \$1.56 billion.

2001: Remaining stake in *Coach* is spun off to *Sara Lee* shareholders; *Sara Lee* purchases the second largest bakery in the United States, *The Earthgrains Company*.

On July 4, 2012, the North American operations of *Sara Lee Corporation* was reincorporated as *Hillshire Brands*, only to merge with *Tyson Foods* in August 2014. The international beverage component of *Sara Lee Corporation* was sold to *JAB Holding Company* and rebranded as *D.E Master Blenders 1753*.

How this will all end is unknown. Throughout history brands have come and gone. Many brands, like *Eight O'Clock Coffee*, have outlived their creator.

Introduced in 1919 by *The Great Atlantic and Pacific Tea Company (A&P)* as their store brand, *Eight O'Clock Coffee* became the largest selling U.S. coffee brand, capturing roughly a third of the entire market. By 2003, *A&P* was desperate for cash, and trademark rights to *Eight O'Clock Coffee* were sold to a private investment firm. Three years later those rights were sold to India's *Tata Global Beverages*. *A&P* finally filed for Chapter 11 bankruptcy and closed their doors on November 25, 2015.

Our series on *Reversals of Fortune in the Tea Industry* will continue in the next issue of the *Upton Tea Quarterly*.