



**February 2020 Strategic Case Study Examination**  
**Pre-seen material**



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## Shinepodd

You are a senior manager in the finance function at Shinepodd ("S/D"). You report directly to the Board and advise on special projects and strategic matters.

S/D is based in Middland where the currency is the M\$. Middland requires companies to prepare their financial statements in accordance with IFRS.

S/D is quoted on the Middland Stock Exchange. This is an active and well-regulated exchange. Companies that are quoted on the exchange are required to adhere to the Middland Code of Corporate Governance, which sets out detailed regulations relating to the governance arrangements for quoted companies.

## Coffee



Coffee is one of the most popular drinks in the world. It is made from the “beans” that develop inside the berries of a family of shrubs or trees that are native to parts of Southern Africa and Asia, although these plants are now cultivated in many countries around the World. When the berries are ripe they are picked and processed so that the beans can be extracted and dried. The dried coffee beans are roasted. The roasted beans are ground, after which they can be used to make coffee by brewing them in very hot water.

Coffee is a popular drink. It has a bitter taste, which some coffee drinkers enjoy, but it can be sweetened by adding milk and/or sugar. There are many different varieties, with flavour being affected by the species of the shrub from which the berries have been picked and by the manner in which the berries are roasted. Different varieties can be blended to create an even wider range of flavours.

Coffee contains caffeine, a stimulant that gives a cup of coffee a refreshing quality, which makes it a popular breakfast drink. It is slightly acidic, which means that it aids digestion and so it is frequently drunk after meals. It also gives its name to the mid-morning and mid-afternoon “coffee breaks” that occur during the working day.

Coffee is a major commodity that is traded on international markets, usually priced in USD. It is one of the top agricultural exports of many countries. It is one of the most valuable commodities exported by developing countries. Coffee exports have the potential to keep a significant proportion of the populations of some developing countries out of poverty. Green (or unroasted) coffee is one of the most heavily traded commodities by value in the world.



Coffee shrubs are grown in tropical countries. They require special growing conditions, tending to thrive on east-facing slopes that prevent them from excessive sunshine. It takes four to five years from planting a seed to getting coffee berries. It is important to plant seeds annually to ensure a continuous cycle of new shrubs starting to bear fruit to replace those that are at the ends of their productive lives. The coffee plants will produce berries for approximately 25 years, a good plant will yield about a kilo a year.

Coffee has a significant environmental footprint. Coffee plantations require a great deal of water to enable the shrubs to thrive and create a good crop of berries. Growers often use chemicals as a protection from weeds and insects on plantations. Coffee growers have been accused of clearing land and destroying important natural habitats. This is particularly true when the “wet process” is used to remove the coffee beans from the coffee berries before the berries have dried. Doing so improves the flavour of the beans, but it requires the use of special equipment and large amounts of water.





There have also been concerns about the exploitation of plantation workers, who may be forced to work long hours for poor pay. There are also concerns that the owners of small plantations are exposed to fluctuations in world coffee prices that can result in them being unable to support their families properly when prices fall and they are forced to sell their crops for little or no profit.

There have been a number of initiatives to address these sustainability issues. For example, there are organic coffee plantations, which use pest-resistant shrubs and other strategies to avoid the use of chemicals. There are also “fair trade” initiatives which involve paying farmers a price that is sufficient to enable them to support themselves and their families, with the resulting price increase passed on to the consumer.

## Coffee as a beverage

Coffee can be purchased for consumption in many different forms:

<p><b>Coffee beans and ground coffee</b></p> 	<p>Consumers can buy coffee in the form of roasted coffee beans, which they have to grind in order to make a drink. Alternatively, they can buy ground coffee beans.</p> <p>The ground coffee is made into a drink using a variety of different methods, all of which involve mixing the ground coffee with very hot water, ideally just below boiling, or trickling hot water through ground coffee.</p> <p>Many coffee drinkers enjoy the aroma and flavour that is released when coffee is made in this way. It is, however, quite time-consuming in comparison to other methods and leaves the consumer with the need to dispose of the used coffee grounds, which are liable to cause stains if spilled on furniture or floor coverings.</p>
<p><b>Instant coffee</b></p> 	<p>Instant coffee is manufactured by brewing coffee in industrial quantities, filtering out the used grounds and drying the resulting drink to leave a soluble powder or granulated product. The consumer simply spoons this product into a cup or mug and adds hot water to make a drink.</p> <p>Instant coffee is more convenient because it is quicker to make and does not leave the consumer to dispose of grounds. Some consumers believe that instant coffee is inferior to coffee made from ground coffee beans.</p>

### Coffee shop coffee



Most towns and cities have large numbers of coffee shops. These fulfil a number of functions, including providing a public space in which customers can meet friends and socialise. They also have equipment that can make coffees that would be difficult to create at home.

Coffee shops have trained “baristas” who can use the steam-powered machines to create coffees that have tastes and textures that would be difficult to create at home. One popular variation is espresso, which involves filling a metal container with ground coffee and blowing steam through the coffee at high pressure. A small quantity of very concentrated coffee is released through the bottom of the container.

Coffee shop machines can also blow steam into a jug of milk to create a froth. The froth is added to a cup of espresso to make cappuccino or latte.

These drinks are very popular but are expensive and the equipment needed to make them properly is too large to buy for home use.

### Coffee pods



Coffee pods make it possible to create coffee in the home that is almost as good as coffee from a coffee shop. Consumers buy an electrical coffee machine that is compatible with their preferred brand of coffee pod. These machines are small enough to fit on a kitchen worktop without taking up too much space and could be kept in a cupboard when not in use.

Consumers also require a supply of coffee pods, which are usually sold online or may be available from supermarkets. The pods are made out of plastic and aluminium, each pod containing a measured quantity of ground coffee. The pods are airtight and so keep the coffee fresh before consumption.

The consumer fills a tank in the machine with water, inserts a pod into a chamber and places a cup below the machine's spout. The machine then automatically heats the water, punctures the pod and blows steam through the coffee grounds, and allows coffee to flow through the spout into the cup. The used grounds remain within the pod, which has to be disposed of carefully because it takes some time to cool down and is liable to drip some coffee through the holes created by the machine.

Some coffee machines can create froth from milk to enable the consumer to make cappuccino.

Some consumers find it more convenient to use coffee pods rather than ground beans. Used coffee pods are also easier to dispose of than loose coffee grounds, which can be messy.

## Shinepodd (S/D)

S/D was established in the mid-1980s by an entrepreneur who believed that consumers were willing to pay more for better quality coffee. Coffee drinkers were spending increasing amounts in coffee shops in order to enjoy good quality coffee while shopping or while commuting to or from work. These indulgent purchases were becoming so popular that the phrase “latte factor” was used to describe the phenomenon of personal spending on frequent small treats, such as coffee shop coffee, affecting individuals’ ability to save.



The founder’s vision was to develop a technology that would enable consumers to create espresso-style coffees. At that time, the only way to make espresso at home involved the use of a complicated system that involved a metal jug which could be broken down and allowed the bottom half to be filled with water and a tray containing ground coffee. Heating the jug on the stove created high pressure steam in the bottom half, which rose through the tray of coffee and filled the top half of the jug with espresso.

These machines were messy and time-consuming to use.

The founder developed a system that used the same principle as the metal jug but was easier to operate. Consumers would buy an electrical appliance that would heat the water and pass the resulting steam through coffee that was contained in a pod made out of plastic and aluminium. This required much less effort than conventional espresso makers and produced excellent coffee.



The concept proved successful and the S/D Pod System was launched in the early 1990s. S/D grew rapidly and the company was quoted on the Middlesbrough Stock Exchange in 1997. The founder sold his shares shortly after and takes no further interest in the company.

S/D’s pods are made of plastic and aluminium. They are engineered to withstand the pressure of the steam flowing through the coffee grounds contained within. Each pod can be used only once because the machine punctures the top and bottom in order to allow the steam to enter and the coffee to escape.

S/D does not manufacture the machines. It has granted three manufacturers of consumer electrical goods, Homewyre, Orpalast and Zendiclam, the right to use its name in promoting and selling coffee machines that are compatible with S/D pods. All three manufacturers are essentially in competition with one another, although they also differentiate their products in terms of quality of finish and features. There is sufficient demand for S/D-compatible machines to justify manufacture by three different companies.

In addition to permitting all three companies to use S/D’s name on their machines and in their advertising, S/D promotes the machines through its website without making a charge. S/D’s consumer research indicates that consumers tend to be loyal customers once they have invested in a machine.

There are competing manufacturers of coffee pods. Each manufacturer’s pods are designed to fit exclusively in the machines that are designed for their own brand. Competitors’ pods do not fit in S/D compatible machines and S/D pods will not fit in competitors’ machines. Several manufacturers of electrical goods, including Homewyre, Orpalast and Zendiclam, make machines that use competing brands of coffee pods.

Coffee pods are the most expensive way to make a coffee at home. Beans, ground coffee and instant coffee can all be manufactured and packaged at a much lower cost than pods. Coffee pods are also relatively bulkier and heavier than the alternatives and so it costs more to store



and distribute them. S/D addresses that problem by selling its pods exclusively online. Customers can log into its website and can choose from a selection of different varieties of coffee. S/D then despatches the pods using next-day third-party couriers.

Customers find online sales convenient because a box of pods would add bulk to their weekly shopping. Supermarkets would also be somewhat reluctant to stock pods because they would take up a lot of shelf space in comparison to ground and instant coffees.

The only places where S/D pods are sold over the counter are the “boutique” shops that S/D has opened in prominent places such as upmarket city centre shopping streets and railway stations. These permit customers to sample different varieties of S/D coffee, free of charge if they are registered customers. They also sell machines and pods, although the main purpose of the shops is to promote the product and increase brand recognition.



S/D also advertises its pods heavily on television, in glossy magazines and on billboards, as well as through its website. Its advertising always features leading movie actors, in order to create the link between S/D coffee and luxury. For several years, S/D had paid actor Jorge Negrato to be the “face” of S/D, appearing in adverts in which he drinks coffee with one or more of his celebrity friends. Feedback from customers show that these adverts have been very successful in creating a sense of brand recognition for S/D.

S/D also pays very close attention to the ground coffee that it uses in its pods. It promotes itself as a luxury brand and so it insists on using only the best quality coffee in its pods. The pods themselves are also made so that they look attractive and are pleasant to handle. They are moulded from good quality plastic and aluminium and are constructed so that they feel smooth.

S/D works closely with major coffee growers around the world. S/D uses mainly Arabica coffee beans which are more expensive than other kinds but are very popular with coffee drinkers worldwide. There are 37 different varieties of pod and S/D uses varieties of coffee from virtually every coffee-growing country. Different climates affect the growth and so the flavour of the resulting coffee.

Alanzo Perez, S/D's Director of Overseas Operations travels constantly to liaise with plantation owners. His staff conduct frequent visits to plantations to ensure that the coffee is being grown and harvested in accordance with S/D's preferences, so that the resulting coffee beans are of a high quality. These visits seek to ensure that policies are in place to protect the welfare of the plantation workers. Berries are picked by hand, so it is a labour-intensive process.

S/D is prepared to offer advice and even to invest in facilities to support the plantations. For example, the beans extracted from the ripe, red berries have a better flavour than those from berries that are still slightly green. S/D encourages plantations to use the “wet” process to extract the beans from the berries because the beans from the better quality berries sink to the bottom of the tanks and so can be gathered for sale to S/D, leaving the rest of the crop for sale to other customers.

S/D has invested in large drying sheds close to some of its major growers. These are used to permit the beans to be dried indoors on racks that are protected from the rain, which reduces the risk of the beans fermenting and so tainting the flavour of the coffee. Otherwise, many growers would dry their beans outdoors. Drying takes approximately three weeks.



Once the beans are dried, they are “polished”, which essentially involves stirring the beans up so that they rub against one another. This also sorts them by size. The beans are referred to as “green” at this stage in the process.

S/D insists on receiving only very high-quality beans, so it pays up to 15% more than the market price in order to encourage growers to provide it with only their very best quality beans.

The processed beans are shipped to S/D’s factory in Middland, where they are roasted and ground. This is a crucial part of the process because coffee brewed from green beans would taste very bitter and unpleasant. The roasting process gives coffee beans the characteristic flavour that drinkers enjoy.

Roasting coffee is a skilled craft and S/D employs experts. Green beans are roasted in large drums that heat them to a precisely controlled temperature for a specific duration. The heat and time are varied in respect of the variety of bean and the type of drink that will be made from it. For example, lightly roasting beans gives the final coffee a lighter colour and a more subtle flavour, while a “dark roast” results in a brew that looks and tastes stronger. Most S/D pods produce a variation of espresso coffee, which requires a dark roast, but some of S/D’s beans are given a light roast to add a particular flavour to the darker roasts in the blend making up a particular variety of pod.

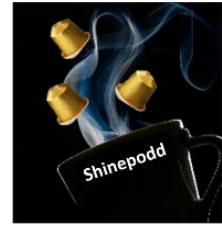
The roasted beans must be ground to a very specific consistency. S/D requires coffee to be ground so that the resulting grounds are fine, but if they are too fine then they will be carried into the consumer’s cup and will taint the flavour. S/D has different grinding machines for each variety of bean that it processes so that there is no cross-contamination of flavours.

S/D manufactures the pods on site and the ground coffee beans are blended into the different varieties and used to fill the pods before the pods are sealed and packed.



The finished coffee pods are packaged in cardboard sleeves, each holding ten pods. The sleeves are stored in S/D’s distribution centre, awaiting despatch to customers. Customers are required to order in multiples of 100 pods, which mean that it can use standardised cartons to package products for delivery. Orders are placed online and are fulfilled by third- party couriers.





## Extracts from S/D's corporate published documents

### **S/D's social responsibility**

#### ***Sustainability***

**Our success is inextricably linked to the improvement in the lives of the farmers and suppliers who grow and produce our products.**

S/D ensures that its use of premium Arabica coffee is sustainable in the long term.

- We are committed to offering ethically purchased and responsibly produced sustainable products of the highest quality. Making coffee the world's first sustainable product to improve the lives of at least one million people in coffee communities around the world.
- Our holistic approach to ethically sourcing the highest quality coffee helps foster a better future for farmers and their communities.

S/D uses the wet process for separating coffee beans from coffee berries. This process uses a lot of water.

- In areas where clean, fresh water is in short supply, S/D creates deep bore holes and pumps water to the surface so that the farmers who supply us are self-sufficient in terms of water. These facilities supply many local communities with clean water to augment local sources.
- S/D has built drying sheds that are open at the sides so that they use the natural flow of air to dry the coffee beans and do not use any fuel.

#### ***S/D Third Party Code of Conduct in Employment***

This Code applies to all third-party entities which do business with S/D.

S/D expects all such entities to maintain working conditions that meet internationally declared human rights and standards.

1. Third parties shall not discriminate against any individual. All appointments will be based on merit, regardless of factors including (but not restricted to) age, race, gender or political beliefs.
2. Third parties shall pay all employees at least the applicable minimum wage.
3. Third parties shall not require employees to work excessive overtime.
4. Third parties shall provide a safe and healthy working environment.
5. Third parties shall ensure that employees are not subject to abusive or bullying behaviour.

## **S/D's vision, mission and values**

### ***Vision***

A cup of joy in every household.

### ***Mission***

S/D's mission is to succeed by meeting our customers' needs for excellent coffee and our shareholders' needs for a strong return on their investment.

### ***Values***

S/D will:

1. deliver the highest possible coffee experience to customers
2. maintain high standards of ethics and professionalism in all our work
3. improve the welfare of all our coffee growers
4. treat our planet with respect

### **S/D's strategy**

S/D is focussed on continuing global expansion.

- S/D has grown organically and has adopted a differentiation strategy. Its premium coffee pods contain the very best quality Arabica coffee.
- S/D works with coffee growers to ensure the coffee they purchase is grown in good conditions and only the best ripe coffee berries are used in its products.
- S/D monitors the growers whom it uses to ensure they pay living wages and provide good working conditions.
- S/D sells almost exclusively online and delivers its pods quickly to its customers. 70% of deliveries are made within 24 hours of ordering.
- S/D is a premium brand and its products are expensive. Despite this, the demand for its pods has grown steadily.

## Shinepodd's Board of Directors

### ***Matteo Lund, Non-Executive Chairman***

Matteo is a retired business executive who worked for many years in a large tea producing company. Matteo was appointed in 2016.

### ***Anders Lunt, Chief Executive Officer***

Anders worked in coffee agriculture in Beeland for 8 years before moving to be production director at a major coffee roasting company. Anders was appointed in 2016.

### ***Liela Dorcas, Chief Financial Officer***

Liela was a senior accountant with a large retailer before she was appointed to S/D's Board. She is a qualified accountant. Liela was appointed in 2013.

### ***Alanzo Perez, Director of Overseas Operations***

Alanzo is a qualified horticulturist, specialising in coffee. He has worked in several countries that grow coffee. He trains the coffee growers and advises them on getting high yields and quality coffee berries. Alanzo was appointed Director in 2015.

### ***Helena Moreno, Commercial Director***

Helena has held a number of senior positions in major quoted companies, including a period as Director of Human Resources at Croowe Coffee, one of S/D's competitors. Helena joined S/D's Board in 2017.

### ***Johan List, Human Resource Director***

Johan trained and practised as a human resource manager in a large production company before joining S/D as a senior HR Manager in 2012. He was promoted to HR Director in 2017.

### ***Marcus Unst, Independent Non-Executive Director***

Marcus is a qualified accountant who was a partner in one of Midland's most prestigious accountancy firms. Marcus was appointed to S/D's Board in 2017.

### ***Julia Henderson, Independent Non-Executive Director***

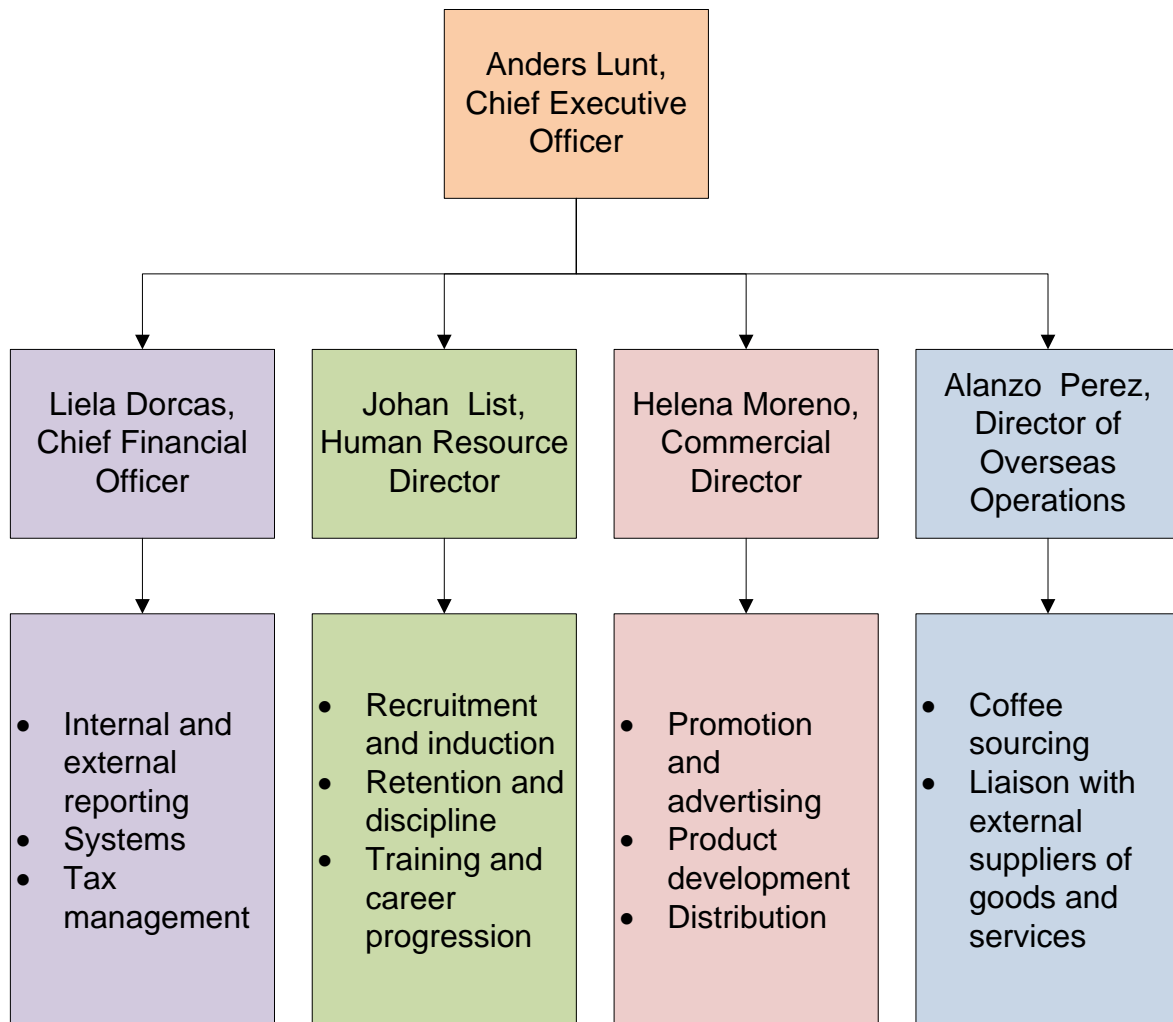
Julia ran a very successful small coffee roasting company. She retired in 2012 and was appointed to S/D's Board in 2015.

### ***Johanna Fria, Independent Non-Executive Director***

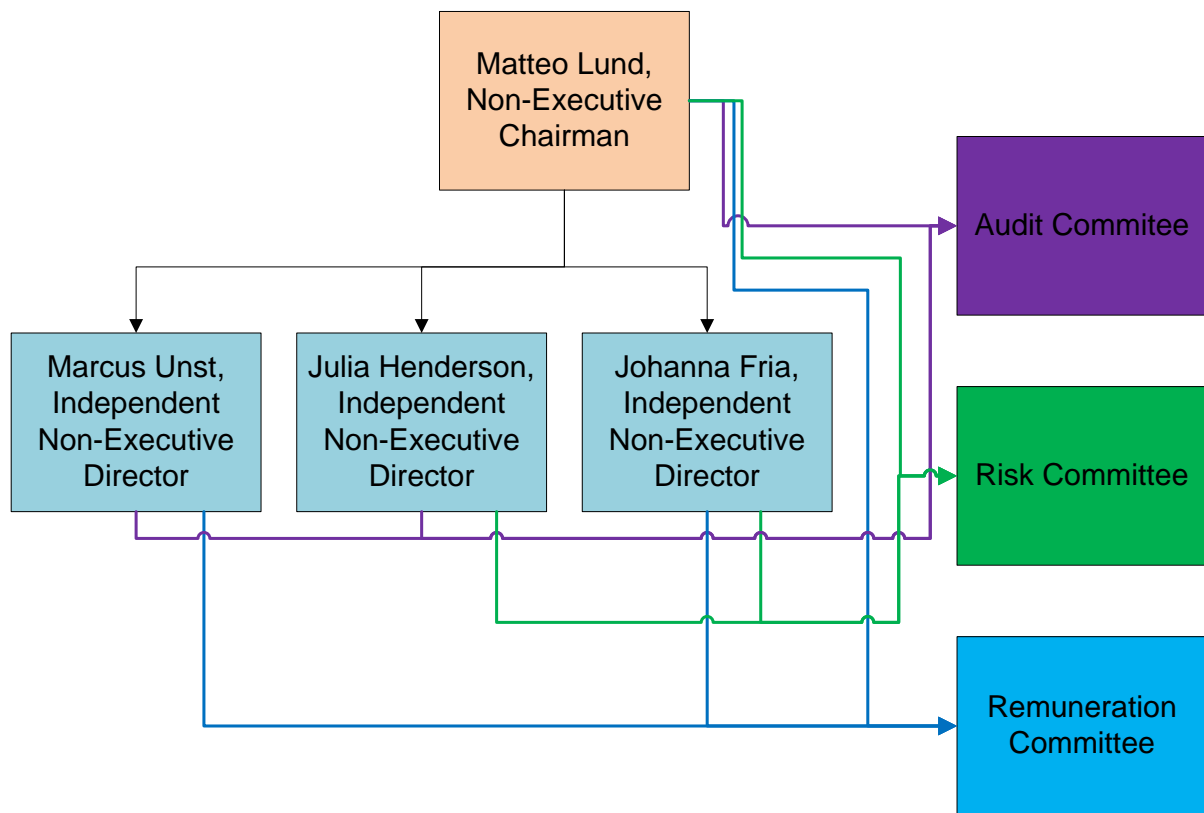
Johanna was a senior manager in a laboratory specialising in plant health. She still does some part time work in a tropical house in a botanic garden in Midland. Johanna was appointed to S/D's Board in 2017.

## Organisation chart

### Executive directors



## Non-executive directors





## S/D's principal risks

Risk theme	Risk impact	Risk mitigation
<b>Economic environment</b>	<p>A rise in coffee prices could place significant financial strain on S/D and is one of the key risk factors affecting the company.</p> <p>S/D purchases coffee from many countries and sells coffee worldwide. A change in the value of M\$ could have a significant effect on the financial statements.</p>	<p>There is a huge market for coffee and S/Ds senior management monitors prices closely to inform purchasing strategy.</p> <p>S/D uses internal and external hedging to minimise the effect of currency fluctuations.</p>
<b>Environmental</b>	<p>There is a risk to reputation if the pods are not recycled. They cannot be recycled by conventional means and consumers are reluctant to return their used pods to S/D for specialist processing.</p> <p>There is a risk to reputation if the welfare of coffee growers is not looked after.</p>	<p>S/D hopes to introduce a better recycling policy and collection system for used pods.</p> <p>S/D has a code of conduct which is enforced to ensure the coffee growers are treated well.</p>
<b>IT</b>	<p>Most sales are made online so any systems outage could have a significant effect on profits and reputation.</p> <p>S/D is vulnerable to cyber-attack as so much of their business is online.</p>	<p>S/D has excellent cyber security in place.</p> <p>S/D also has a strong internal audit department which monitors all risks closely.</p>
<b>Other</b>	<p>The weather could affect the availability of quality coffee beans, which in turn affects price.</p>	<p>S/D buys from a variety of countries to try and mitigate this risk.</p>

## S/D internal audit charter

The Internal Audit Department's responsibilities are defined by S/D's Board. Internal Audit is overseen by the Audit Committee.

The Chief Internal Auditor will ensure that internal audit staff apply appropriate professional standards in the pursuit of their duties. The Chief Internal Auditor will report to the Convener of S/D's Audit Committee.

The members of the Internal Audit Department are granted unrestricted access to any records, locations and assets in order to discharge their duties. They are also free to interview all staff and have a right to receive full cooperation whenever they do so.

A written report will be submitted to the Chief Internal Auditor at the conclusion of each internal audit engagement. The Chief Internal Auditor will communicate internal audit findings to the Convener of the Audit Committee, who is free to request access to internal audit reports.

Internal audit reports will be used to provide feedback to managers who are responsible for the areas subject to audit. Where exceptions are noted, the managers responsible will agree a plan for rectification and the internal audit staff will ensure that agreed changes are implemented.

An internal audit plan will be developed each year and approved by the Audit Committee. The plan will focus on areas identified using a risk-based approach. The Chief Internal Auditor will seek authorisation from the Convener of the Audit Committee before deviating from the plan. The Audit Committee has the authority to require revisions to the plan or to request special investigations that are deemed necessary.

## Financial statements

The following information has been extracted from S/D's financial statements for the year ended 31 December 2019

### S/D

#### Consolidated statement of profit or loss for the year ended 31 December

	2019	2018
	M\$ million	M\$ million
Revenue	3,048	2,986
Cost of goods sold	(1,536)	(1,519)
Distribution expenses	(282)	(267)
Marketing and administration expenses	(667)	(661)
Operating profit	563	539
Finance cost	(34)	(28)
Profit before tax	529	511
Tax	(138)	(133)
Profit for the year	391	378

### S/D

#### Consolidated statement of changes in equity for the year ended 31 December 2019

	Share capital	Translation reserve	Retained earnings	Total
	M\$ million	M\$ million	M\$ million	M\$ million
Opening balance	27	(648)	2,716	2,095
Profit for year			391	391
Dividend			(286)	(286)
Exchange translation loss		(33)		(33)
Closing balance	27	(681)	2,821	2,167

**S/D**

**Consolidated statement of financial position**

**as at 31 December**

	2019 M\$ million	2018 M\$ million
<b>Non-current assets</b>		
Property, plant and equipment	1,233	1,026
Goodwill	1,057	1,057
Intangible assets	721	687
	<u>3,011</u>	<u>2,770</u>
<b>Current assets</b>		
Inventories	304	306
Trade receivables	254	249
Cash and cash equivalents	260	265
	<u>818</u>	<u>820</u>
<b>Total assets</b>	<u><u>3,829</u></u>	<u><u>3,590</u></u>
<b>Equity</b>		
Share capital	27	27
Translation reserve	(681)	(648)
Retained earnings	2,821	2,716
	<u>2,167</u>	<u>2,095</u>
<b>Non-current liabilities</b>		
Loans	857	619
Deferred tax	85	116
	<u>942</u>	<u>735</u>
<b>Current liabilities</b>		
Trade payables	593	629
Current tax	127	131
	<u>720</u>	<u>760</u>
<b>Total equity and liabilities</b>	<u><u>3,829</u></u>	<u><u>3,590</u></u>

## Extracts from a competitor's financial statements

### Caffham

#### Consolidated statement of profit or loss for the year ended 31 December

	2019	2018
	M\$ million	M\$ million
Revenue	2,596	2,544
Cost of goods sold	(1,326)	(1,312)
Distribution expenses	(252)	(239)
Marketing and administration expenses	(586)	(580)
Operating profit	432	413
Finance cost	(32)	(26)
Profit before tax	400	387
Tax	(104)	(101)
Profit for the year	296	286



**Caffham****Consolidated statement of financial position****as at 31 December**

	2019 M\$ million	2018 M\$ million
<b>Non-current assets</b>		
Property, plant and equipment	1,069	893
Goodwill	920	920
Intangible assets	632	603
	<u>2,621</u>	<u>2,416</u>
<b>Current assets</b>		
Inventories	271	273
Trade receivables	227	223
Cash and cash equivalents	233	237
	<u>731</u>	<u>733</u>
<b>Total assets</b>	<u><u>3,352</u></u>	<u><u>3,149</u></u>
<b>Equity</b>		
Share capital	75	75
Translation reserve	(598)	(569)
Retained earnings	2,407	2,319
	<u>1,884</u>	<u>1,825</u>
<b>Non-current liabilities</b>		
Loans	749	544
Deferred tax	78	105
	<u>827</u>	<u>649</u>
<b>Current liabilities</b>		
Trade payables	526	556
Current tax	115	119
	<u>641</u>	<u>675</u>
<b>Total equity and liabilities</b>	<u><u>3,352</u></u>	<u><u>3,149</u></u>

## Share price history



S/D's geared beta is 0.51. Its ungeared beta is 0.45.

# Good Gardening

## Coffee Grounds Work

### James's Gardening Column

#### Don't throw out your used coffee pods!

Over the years I have discovered that coffee grounds added to my other recycled vegetable peelings makes great compost. The coffee grounds can also be used to keep snails and slugs at bay as they dislike the texture.

I go around all my friends and collect their coffee pods and use them for compost. It's a bit of work as you need lots of pods and have to open the pod and scrape the coffee grounds out but it's great. People can't be bothered doing it themselves as it takes time, so I get lots of pods. Most people I know drink S/D coffee and it's a pity the company doesn't do more to recycle the pods. S/D could make it easier I'm sure. It's a pity the pods have plastic around them as well as aluminium.

## Gadget

## Battle of the Machines

Gadget tested several coffee makers and also an older espresso maker. Which came out on top?

We looked at several different facets of the machines and the espresso they made: ease of use, price, taste, easy access to quality coffee, time taken to make the coffee, crema on top of the coffee, ease of cleaning.

In spite of the coffee machines that use pods being very expensive they came out on top. Ease of cleaning was one of the biggest differences with the traditional espresso machines being bottom of the heap. Taste, crema, ease of purchase and cleaning were all rated more highly by Gadget's testing panel for the pod machines. Even the price didn't seem to be a barrier; the taste was worth it apparently.

An easy victory for the pod machines.

# Middland Daily News

## Happy Jorge signed up for another three years with S/D!

Jorge Negrato was looking very happy today when he posed for the press outside S/D's head office.



It was announced that he has been signed up for another three years as the star of S/Ds coffee pod adverts.

Rumour has it he makes more from the adverts than he does from Hollywood and filming a series of coffee commercials is far easier than making a movie.

Nice work if you can get it!

# Middland Telegraph

Valyoumart, the discount supermarket chain, announced a further round of discounts and



price reductions in its store. That is great news for the chain's customers, who already enjoy low prices and value for money. Valyoumart's suppliers are less likely to welcome the cuts.

Many suppliers are already claiming that underpaying suppliers is a significant element of the retail giant's success. They order in very large quantities but demand the keenest prices for doing so. That can leave suppliers in

difficulty if their own costs increase because Valyoumart is notoriously reluctant to renegotiate contracts.

Some major brands have disappeared from Valyoumart's shelves because the retailer leaves them with insufficient margin. Valyoumart's spokesperson dismissed such claims as "greed" on the part of food manufacturers and argued that it always has a good variety of items at excellent prices.

# Middland Telegraph

## Legal threat to food manufacturers averted



Middland's Minister of Consumer Affairs announced yesterday that the proposed law to force food manufacturers to absorb costs associated with the price volatility of the underlying commodities used in production had been defeated. It is now 18 months since the Government had announced that it intended to ban the practice of increasing prices when underlying costs rose on world markets, then leaving the increased prices in place

when commodity prices fell. The Minister cited difficulties in developing effective definitions and also the need to balance the conflicting interests of manufacturers against consumers.

Share prices of manufacturers who rely on such commodities, including wheat, rice, tea and coffee, increased immediately after the announcement.

Consumer protection groups criticised the Government for this. A spokesperson for Affordable Food stated that the defeat of the proposed law was very regrettable, but it was also expected. Large companies often influence the drafting of new laws. It is, for example, well known that companies frequently engage lobbyists who can persuade politicians to use their influence in support of the lobbyists' clients. The lobbyists can offer favours, such as political support, or can threaten to relocate production to foreign countries and so blame the politicians for the loss of jobs.



# Middland Daily News

## Stick it in the bin

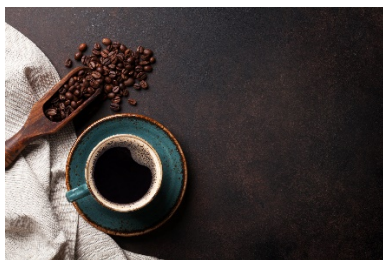


A recent survey by Middland University indicated that most consumers are lazy when it comes to recycling food packaging. They are generally willing to put packages in the correct bin but tend not to put any great effort in when they are confused. For example, milk cartons are frequently thrown in the general waste because householders are often unsure whether they are made out of plastic or cardboard.

Owners of coffee machines admitted that they were reluctant to store used coffee pods for return to the manufacturers for recycling. The pods tend to leak small quantities of coffee, which can be messy. It is easier to throw the pods away rather than to store them for handing back to the courier when they make the next delivery, even though the makers provide sealable plastic bags and pay for the return courier fees.

## Recent posts from CEO's blog

### Don't amount to a hill of beans?



One of Humphrey Bogart's most famous movie quotes likened something insignificant to a "hill of beans". That struck a chord with me last week when I returned from a visit to some of the plantations from which we buy some very large "hills" of the world's finest Arabica coffee beans.

Our customers seem to appreciate the effort that we invest. More than 450,000 people visit our online store every day. They are clearly attracted by the quality.

That quality comes at a cost, we pay our growers a very good price for our beans, more than 15% over the market rate. We do that to ensure that we get the best quality beans and so our growers can live well and afford to treat their workers accordingly, with good wages for all their hard work.

Anders

### **Comments**

How many plantation workers did you talk to during your trip to the coffee plantations? Do you really believe that plantation owners pay their workers well just because they can?

Young Sam

### **Taste test**



As you can imagine, I drink a lot of coffee. People ask if I ever get bored, but it just doesn't happen because one of the benefits of my job is that I get to taste all of the new varieties before they are launched.

I sampled our new Latin American range of coffees this morning. These blend coffees from Central and South America to give varieties that have strong, smooth flavours. They could be enjoyed at any time of day, but I prefer to drink strong coffee after dinner.

Don't worry, my "taste test" has nothing to do with the final blend. We have master coffee blenders who are experts in checking that our coffee is the most delicious on the market. Blending coffee is very much an art that requires a huge amount of skill.

When we launch these new varieties we will have more than 40 varieties of pods to choose from.

## Return to sender



Returning from a business trip last week, I wondered how much of the airliner I was sitting in was made out of recycled S/D pods. The chances are that the aluminium used to make the body and wings of the plane had been recycled from other items, including the lids of our pods. Recycled aluminium is just as safe and strong as newly smelted metal and so it can be used for any purpose.

I have a plea to all of our customers. Every delivery of S/D pods contains a plastic recycling bag. If you use it to store used pods, you can seal it up just before your next delivery, using the self-seal strip. The courier who delivers your fresh pods will then collect the bag and return it to us for recycling, at no additional cost to you. The bag is already addressed and carries an account code that charges the collection directly to us.

It is a shame to waste the resources that go into our lovely pods. If we could achieve a 100% recycling rate then one day I might get to fly in a plane made entirely out of recycled pods!

### Comments

Sorry, but I buy pods once every four or five weeks. That is a long time to store a plastic bag full of damp plastic pods. I did recycle the first few batches, but they started to smell slightly of stale coffee after a few days and we had an accident once when the bag spilled and left a coffee stain on my kitchen floor.

I would recycle the pods if it was easier, but it just isn't convenient.

Proud Homeowner

You need to take time for a reality check.

- Two large jars of instant coffee last as long as a delivery of your coffee pods.
- The jars don't take up a huge amount of space when they are shipped, unlike the huge cardboard boxes that you use to send your coffee pods in.
- Customers can easily slip a jar of instant coffee into their weekly shop and so don't have to request a courier delivery just to bring their coffee.
- An empty glass coffee jar can be recycled easily, unlike your pods that require transportation back to you ...
- ... except that very few of the pods are ever returned because it is inconvenient to do so

You clearly don't care about the environment. How many business flights do you take in a year?

Planetluvver