Green Mountain Coffee Roasters: Carving Out Opportunities That Starbucks Missed

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Giant: Starbucks
Shadow Success: Green Mountain Coffee Roasters
Starbucks market cap: $11 billion; revenues: $10 billion
Green Mountain market cap: $2.3 billion; revenues: $643 million

When Bob Stiller, founder of Green Mountain Coffee, first encountered the beans that changed his life, it was at a Vermont ski resort. He liked the coffee so much, he bought the company. Eventually, he embarked on a mission to put high-quality coffee into the cups of the public wherever he could reach them. He sold primarily to cafes and restaurants, but in the mid-1990s, that put him on a collision course with Starbucks, as the aggressive Seattle-based chain was rapidly expanding to dominate the coffee klatch market.

But Stiller was shrewd, especially about picking his battles. Mitchell Pinheiro, an analyst with Janney Montgomery Scott who has covered Green Mountain for a decade, sums up Stiller's simple approach this way: "Do what works and walk away from what doesn't." By 1998, Stiller saw that Starbucks and, to a lesser degree, Peets, were taking over the cafe business, so he got out of it. Instead, he went after the far less capital-intensive wholesale business. "To him, it was just a better business model," Pinheiro says.

That early move characterizes Stiller's ongoing strategy of looking to build out where others aren't. He aggressively sold to customers whom other premium coffee producers overlooked. He convinced owners of gas stations and convenience stores, for instance, that they could outsell the station across the street if they sold Green Mountain. Eventually, he landed big clients such as Mobil gas stations and Stop & Shop convenience stores. He struck a partnership with the office supply store Staples, and today one-third of the company's $342 million in sales comes from selling coffee directly to offices.

One of his strategies — pushing organic and fair-trade coffee — ended up falling squarely in competition with Starbucks. But Stiller got into this business in 1981, before his bigger rivals, and long before organic and fair trade were fashionable. Such coffee, which includes the Newman's Organics brand, now accounts for roughly 20 percent of Green Mountain's shipments. As happened in Vermont, Stiller fell in love with the coffee itself, then created the opportunity. He took tasting trips and met the growers, and that was enough. The coffee excited him, as did the stories of the farmers, so he bet other coffee lovers would feel the same way. Stiller's ultimate skill is that he trusts his gut and his gift as a tastemaker.

At a time when the coffee market seemed saturated, Stiller found yet another opportunity for growth: the single-cup brewing system, known as the K-cup. The K-cup is a proprietary system from a company called Keurig, which Green Mountain acquired in 2006 for $104.3 million. The K-cup lets you brew exactly the type of coffee — or tea or hot chocolate — you want. Pop in your K-cup, press Go, and that's that. The systems are popular at a time when coffee drinkers are avoiding the pricey $5 cup of joe, and companies are installing them because they help keep workers from leaving the office for their caffeine fix.

The Keurig purchase is already paying off. In April, Green Mountain reported that its net income increased 118 percent on a more than 60 percent jump in revenues. That growth has come largely from booming sales of the K-cup systems, which are sold through Wal-Mart, Amazon.com, and other outlets. Such results have given Green Mountain bragging rights that few can claim: a soaring stock price. The stock, which traded at around $25 last November, has since risen more than 220 percent, to $80.