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## Indah: The Unorthodox Rise of a Columbian Staple

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INDAH, THE UNORTHODOX RISE OF A COLUMBIAN STAPLE

By

Will Helms

Submitted in Partial Fulfillment  
of the Requirements for  
Graduation with Honors from the  
South Carolina Honors College

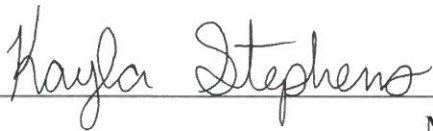
May 2018

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Honors Senior Thesis

# Indah, the Unorthodox Rise of a Colombian Staple

Report and Research by Will Helms

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## Abstract

Over the course of several weeks, I conducted a series of observations at *Indah Coffee Co.* in order to better understand its marketing and interaction with the neighborhood. After observing the coffee shop several times, I consulted outside sources, a process that is considered to be in the psychological realm of “grounded theory”, constantly comparing them to my own observations. After an interview with *Indah’s* owner, I began compiling my findings. The following paper is an outline of my findings, including the importance of the product in the coffee industry versus other industries, the power of successful grassroots marketing, and the complexity of neighborhood development. This study taps into a host of related fields including marketing, craft beer, and sociology as it relates to the Millennial Generation.

This project is dedicated to my parents, who have sacrificed for 22 years to help me get to where I am today. I love them and all they've done for me. And to my grandmother, who has always wanted to own a coffee shop. I love you all.

# Getting Started

## Introduction

Like any prospective Honors student, when I came to Columbia four years ago I held in my head at least an idea of how my time at the University of South Carolina would be spent. That senior in high school envisioned student theatre, intramural games and maybe some field-related research or business extracurriculars. Instead, much of my time in Columbia has consisted of writing articles, most of which have been composed in the various coffee shops that litter South Carolina's capital. Along with the love of writing came the love of coffee and thus, a great appreciation for coffee shops.

In Columbia, the coffee culture is more like that of a large city than a mid-sized southern capital, and the vast majority of these numerous businesses have become prime third places for thousands of college students and young professionals alike. Despite the abnormally large number of coffee shops though, the market is far from saturated; and in just four years, the city has welcomed several new vendors, some of whom have set up shop outside of the highly-trafficked downtown area, with varying degrees of success.

Logic would lead me to believe that the most successful businesses would be located in the downtown area, where a large number of people work or frequent daily. Several Columbian coffee shops have taken this type of common approach. Yet, arguably the most successful of this new round of coffeehouses followed its own rules. From its five year buildingless start-up phase, to its marketing and location, *Indah Coffee Company* has found success off the beaten path. I wanted to know why, so I began researching the company, making observations and consulting



experts on marketing practices. What I found is that *Indah* has found its success by relying on a strong product and great knowledge of its customers and surrounding area. In this paper, I'll examine exactly how and why *Indah* is succeeding away from the Colombian downtown.

## **Purpose**

The Darla Moore School of Business exposes its students to a plethora of business case studies. Most are real-life examples with a specific takeaway in mind. Usually, the lesson is meant to focus on a universal business practice or problem in need of a solution. Furthermore, that solution is usually a relatively common idea that could work across multiple businesses and industries. These studies hone in on a just one or two specific aspects of a business, usually posed as a question with a finite number of potential answers. Functionally, these studies successfully teach students to think critically about an aspect of business, which is helpful. However, this simplified method of teaching can leave some to be desired. After all, even the business model canvas — one of the more simplified methods of analyzing a business model — contains nine separate functional areas of a single company. In a classroom setting, it is difficult and time-consuming to study deeply all of these aspects related to a single business. This therefore is an attempt to analyze a local business — specifically one that follows an unorthodox model — from an outside perspective.

*Indah* is a particularly intriguing company for this sort of work due to its relevant target market — millennials and post-millennials — and the fact that the business utilizes several unique elements of marketing make it an excellent example of modern marketing. Furthermore, *Indah* is local. Likewise, a large chunk of the research conducted for this thesis was organic and

informal — often collected over a cup of coffee and a good book. In my opinion, an experience-near data collection method was better suited for this work than traditional hypothesis and experimentation.

Lastly, *Indah's* location is key to its financial and social success. On a purely personal level, the “place” aspect of the marketing mix is fascinating, and few businesses put as much emphasis on location as the coffee shop. This project tackle two topics relevant to this part of marketing that are too specific to the industry to be discussed in the business school. Later in this paper, I will look into the effect cafe culture has on the financial decisions of the company and will incorporate several aspects of Ray Oldenburg's ‘third place theory’. Though, I disagree with a couple aspects of this theory, I still found its principles helpful to my research.

## **Research Methods**

Instead of hypothesis-testing method of research, I have chosen to use an abductive research method (Agar, 2006). This decision was made with several thoughts in mind.

First, it only took a small amount of preliminary research to understand that there are far too many basic questions about *Indah's* business to form any kind of specific hypothesis. Moreover, it is even more difficult to answer any one statement about the company in a paper such as this. Even when the scope is narrowed to focus primarily on *Indah's* marketing, there is too much to simplify into a single testable element. Thus, instead of asking a specific question that begs a specific answer, I have decided to examine several broader questions, appropriate for exploratory research, including the following:

- *What is happening at Indah?*
- *What is important to the company?*
- *How has Indah related to the neighborhood?*
- *How has the company engaged its customers?*
- *Why that location?*
- *What do outside sources have to say about Indah's unique business practices?*

The research seeks not to answer any question in a specific way, but to tell a story such that the four questions above are explored and refined. This abductive method of research has left the project open-ended and in some areas raised more questions than answers.

Second, the use of abductive research played well into my strengths. I typically enjoy intellectual pursuit and this research method allowed for a healthy amount of “rabbit holes.” In my initial research, I was not limited to information that answers one question. If something could possibly be relevant, it was worth investigating. This led me to spend time looking into several pieces of literature that ultimately do not appear in this paper. However, it also allowed the use of several sources that did not initially seem to belong.

Finally, though my majors are in the business school, much of my work beyond the classroom has been in the field of journalism. While I had no desire to focus completely on journalism in my thesis, this method of research allowed me to incorporate several key skills I have learned in college outside of the classroom. The best stories write themselves and this method of research allowed for a narrative form that I have come to enjoy.

It was important at every step of the research process to remember the type of research method being used. During observations, I never took a set of specific questions, nor did I look for specific answers. Instead, the research was focused on the senses, what could be seen, heard, smelled, touched or, in this case, tasted. Because of the research method used, the literature review was more broad than typically necessary. I looked for sources that, at the time, I could not say with authority would be helpful. Instead, I sought to learn anything and everything I could about coffee shops and sought out literature that could accurately explain what was going on around me.

In this way, I essentially happened upon grounded theory, a name coined by Strauss and Glaser in the late 1960s and further explained in Christina Goulding's 2002 book, *Grounded Theory: A Practical Guide for Management, Business and Marketing Researchers*. According to Goulding, the method can be traced back to the late 1800s, when psychologists began fighting against popular methods of observation-based research. Goulding explains the mechanics of grounded theory in her book.

Methodology, the researcher is required to enter the worlds of those under study in order to observe the subject's environment and the interactions and interpretations that occur. The researcher engaged in symbolic interaction is expected to interpret actions, transcend rich description and develop a theory that incorporates concepts of 'self, language, social setting and social object.' (Goulding, 2002).

My observations at *Indah* fall into this category. I made general observations designed to answer broad questions, and then consulted existing literature to explain what it was I was

actually observing. This “constant comparison method” should be evident throughout this paper. In my day-to-day life, I often make unlikely comparisons between two seemingly unrelated things. That’s the way my brain has always worked, and grounded theory lends itself well to that. So please hang with me if I bring in an unrelated article or fact; I should explain and relate it rather quickly after its initial introduction.

One key piece of the paper revolves around an interview conducted with owner Nick Hausser conducted on Wednesday, April 4 at 7:05 a.m. The interview, lasting around 75 minutes, was conducted after all preliminary research and observations had been completed. Keeping with my abductive method of research, I asked Hausser open-ended questions that would provide me with the information needed to fill the gaps in my research. To avoid leading questions, I never mentioned a “buzzword” under Hausser himself had mentioned that word.

For example, none of my questions mentioned the words “product” or “market” until Hausser himself had broached the topic. For some words, this was easy and undaunting. Very quickly after listening to me first question, “What is Indah?” Hausser mentioned the company’s focus on high-quality coffee and coffee roasting. Other words made me nervous. In no way did I expect Hausser to mention cafe culture or Ray Oldenburg’s third place theory, yet both were brought up midway through the conversation.

From there, I went through one last round of literature review to fill in any necessary gaps in my previous research. I explored the sources mentioned to answer a specific question or idea raised during the observations and interview processes. In essence, all literature used will either affirm or deny what I previously observed.

## ***Indah Coffee Co.***

### **Humble Beginnings**

*Indah Coffee Company* was established in 2010 by owner and operator Nick Hausser. Well, a version of *Indah* was established in 2010. Named after the Indonesian word for beautiful, the shop began not as an 11,000 square foot facility, but as a street vendor at the original Soda City Market. According to Hausser, the idea started when he and his wife were vacationing in Asia. Most coffee served in the various diners they entered was of the instant variety. When he mentioned the lack of quality coffee, it was suggested that he visit the Sumatra area of Indonesia, one of the world's leading exporters of coffee beans. After taking the first available flight out to the area, Hausser learned some of the secrets of the Indonesian coffee industry. There, he gained a passion for quality coffee and learned how to roast coffee, from seed to cup. As Hausser sat in a cafe that roasted its own beans, he was convinced of the superiority of Indonesia's traditional coffee-making processes (Indah, 2015).

**Figure One: Artwork like this logo help preserve a rustic aesthetic in the dining area**



Upon returning to the U.S., Hausser and his wife bought a small coffee roaster and began selling not just coffee, but an experience at the original Soda City Market located at 701 Whaley. Coffee production from raw product to roasted beans was uncommon in the United States, and thus the novel process attracted a following. Customers at the market were offered the opportunity to watch coffee seeds turn into beans before their eyes, and then purchase those beans for their own enjoyment. At first, the model was simple: Buy the seeds, roast them into beans, bag the beans and sell them to customers at the market. As Hausser's popularity grew, however, he realized there were other opportunities to be had.

Soon after Hausser began selling his beans at 701 Whaley, the market outgrew its locale. Hausser and several other merchants oversaw a move to Main Street, where Soda City Market currently resides.

I got back to Columbia and had all these cool experiences [in Indonesia]. I found myself sharing with friends and family. I got a small table-top coffee roaster and started playing around with that and I guess to subsidize my new hobby — Somebody mentioned, “Hey this is really good, you should take this down to the All Local Market ... I started throwing everything in the back of a pickup truck and going down [to 701 Whaley] so *Indah* literally started on the back of an ‘84 Chevy S10 pickup (Hausser, 2018).

To say the move had a large impact on the future of *Indah* would be an understatement. Hausser was simply making a little money on the side while practicing a hobby. In fact, Hausser explained that it wasn’t until *after* Soda City Market moved to Main Street that he even considered his coffee roasting to be a business. Even then, it would take several years for Hausser to even consider turning the side project into a full-time business venture.

## **The Marketing Plan - All things target market**

### **A Grassroots Movement**

In several of my business classes, we’ve talked about early marketing techniques. Most professors teach that attracting early customers is one of the more difficult parts of starting a business, and rightfully so. After all, it is difficult to market an unknown commodity. However, Hausser recalls that early marketing was easy. It was not due to his own merit; for though



Hausser had previously worked as a marketing manager at Chick-fil-a, he credits his early customer base for *Indah*'s rapid expansion. As he recalls, it was only after demand increased to near-current levels that he and his wife even considered acquiring a building.

In fact, when *Indah* had its grand opening for the building on a Tuesday night last May, 1200 people showed up. Hausser did little to promote the event other than creating a Facebook event and telling some friends and loyal customers.

Hausser still thinks this early buzz was unusual, and a quick study of similar businesses shows that this is the case. This particular example emphasizes the power of grassroots marketing. The early interest, according to Hausser, was generated not by the company but by a small but ever growing group of loyal patrons. As Hausser recalls, he and a small group of local vendors "just showed up every Saturday, rain or shine." Loyal customers bought in to Hausser's unique business model and quality roasting, telling friends and acquaintances in the process, and *Indah*'s customer base grew. Without a social media presence, *Indah* relied heavily on personal references. Still seeing the business as a side project, Hausser opted not to pay for any advertising, preferring instead on his existing customer base to make up the bulk of his coffee bean sales. He admits now that while it was not the intent at the time, this grassroots, people-centric model has flavored the brand as it stands now. In a sense, Hausser created a strong and reliable brand by simply keeping his focus away from the brand itself. This practice exists now, with a minimalist logo and lack of distinctive branding in the shop itself. Instead, Hausser focused on customer interactions. After all, the goal was never to start a business, but to meet people and share a passion. It was precisely this focus that attracted new customers.

In a way, Hausser's initial apprehension to starting a business has helped that business succeed. By committing to people and product first, *Indah* usually doesn't have to struggle with getting lost in the money.

*Indah's* business is still focused on the quality of its relationships and its coffee. Among its target market, this is an attractive model. In an interview with eMarketer, Chancellor Professor and Director of the Center for Marketing Research at the University of Massachusetts Dartmouth, Nora Barnes explains the thought process common to most millennials.

"Millennials are looking for information before they make purchases, but they're looking for it from their trusted sources, and their trusted sources are not the manufacturers or providers of products. They tend to be people in their social networks." (Barnes, 2015).

While Hausser doesn't name a target market, he acknowledges that college students and young professionals make up the bulk of *Indah's* customer base. While generational cut-offs are not an exact science, the Pew Research Center defines the millennial generation as anyone born between the years of 1981 and 1996 (Dimock, 2018). So while the post-millennial generation is the most populous generation on college campuses today, the overwhelming majority of *Indah's* early customer base belongs to Generation Y (Millennials).

Regardless, most marketing experts today agree that the similarities between how Generations Y and Z should be approached far exceed the differences. In this sense, marketers can effectively target both generations using similar tactics, namely by building trust (Pasquerelli, 2017).

In her interview, Barnes goes on to explain the importance the “experience” plays in the buying habits of Generation Yers. Customers in this generation are more likely to repeat purchases if they feel valued. While customers from most generations would rather be talked to — rather than at — Barnes explains that millennials are more likely than most to allow the opinions of their peers to influence their buying habits.

It is perhaps due to the above reasoning that *Indah*’s lack of brand building helped the company build trust. At the time, *Indah* was just a name and Nick Hausser and his product was the brand. Consumers came for the conversation as much as the beans. Not even Hausser believed the hobby would become a business.

As a whole, millennials are known to be drawn toward fiscally and socially responsible companies, with one study suggesting that 73 percent of millennials are more likely to make purchases from companies that are seen as sustainable. Furthermore, 81 percent of millennials want their favorite companies to make public their corporate citizenship (Landrum, 2017). In essence, millennials are drawn to responsible businesses and even more to businesses that act as individuals. Millennials respond to people over sales pitches. While earning the first repeat business of a millennial is overall a more difficult task, keeping it beyond the second or third visit is substantially easier.

*Indah* certainly receives its business from more than just this one customer segment, but during several informal visits, I was able to observe that regardless of day or time, the overwhelming majority of customers belonged to this age group (Figure Two, below).

**Figure Two**

**Observation times conducted at Indah over a six-week period from Monday, January 22 to Thursday, March 8.**

	<b>Monday</b>	<b>Tuesday</b>	<b>Wednesday</b>	<b>Thursday</b>	<b>Friday</b>	<b>Saturday</b>
<b>7-10</b>	x		x	x		x
<b>10-1</b>	x	x		x	x	x
<b>1-4</b>		x	x	x	x	x
<b>4-7</b>	x			x	x	

As the Soda City Market grew, so too did *Indah's* customer base. Soon, Hausser began selling drinkable coffee along with the freshly roasted beans, eventually introducing a nitrogen-infused cold brew coffee which quickly grew in popularity. Still, *Indah's* growth depended almost exclusively on the testimony of existing customers.

The company was making inroads with socially-conscious customers, especially those who delighted in supporting local businesses, and a quality product went far to expand the growing brand.

### **Attention to Detail - The Production Process**

Many American coffee shops focus on the process from bean to cup, buying high-quality roasts from vendors and then brewing and selling the coffee in their shops. A coffee shop of this type, then, has less opportunity for error in the process. In the same way that large companies

typically outsource non-essential parts of their products, American coffee shops usually prefer to buy roasted beans rather than seeds. In fact, coffee seeds in the United States are so rare that most patrons don't even realize that the "beans" are simply roasted coffee seeds. At its most basic level, the coffee roasting process is as easy as heating coffee seeds until they reach the desired type of roast, a process that will be further explored below. However, the process is nuanced and small differences in roasting can make for distinct differences in look and taste. Because of this, most coffee shops choose to outsource the roasting process and buy the finished beans wholesale. Conversely, most roasters focus so intently on the seed to bean transformation that they make money by selling whole roasted beans directly to customers. It is rare to find coffee roasters that also complete the bean to cup process or shops that roast their own beans. In Columbia, there are two such shops, *Indah* and *Immaculate Consumption*.

**Figure Three: Various Coffee Beans for sale at Indah**

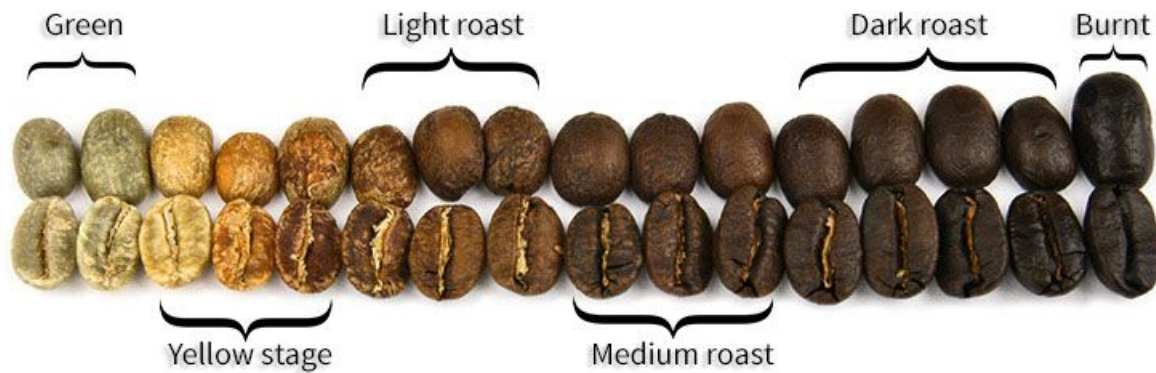


Coffee roasters must have not only a certain skill level, but also a good bit of knowledge. While customers enjoy a wide array of roasts — from delicate light roasts to bold dark roasts — not all seeds lend themselves well to all types of roasts. It takes years of study and a great deal of trial and error to figure out which regions produce seeds that taste better as lighter roasts and which regions produce seeds better suited for darker roasts. Even then, changes in air pressure, rainfall and soil richness can cause changes in seeds produced in a region from one year to the next.

But even if the desired level of roast for a type of seed is known, the roaster must then time the roast perfectly. Even experienced roasters are prone to error here, and it is only after much practice that a roaster is able to achieve the desired roast with any semblance of consistency (Caffe Society, 2017).

Coffee is typically broken down into three or four types of roasts, labeled by color — light, medium, (medium dark) and dark. Unroasted seeds are considered green, but once the roasting process is started, the coffee begins to turn a shade of brown. Obviously, the longer the bean is heated, the darker shade of brown it becomes, with the darkest roasts looking almost black (Figure Two). As the coffee spends time in the roaster, it begins to take on more and more of the flavor imparted by the roaster at the expense of the flavor of the coffee (National Coffee Association, 2018).

**Figure Four: Coffee Roasts**



This however, is not usually considered to be a negative. Espresso roasts are dark and bitter. While the bean shrivels noticeably, it retains most of its caffeine. Thus, these beans can be ground into a fine powder that contains around the same amount of caffeine in a 2-ounce pour that a lighter roast contains in an 8-ounce cup. The bean itself contains slightly less caffeine, but espresso roasts can be ground more finely than lighter roasts.

But before the seed even reaches the roasting process, it often goes through a mode of preparation called “washing”. Because coffee plants do not grow anywhere in the continental United States (for coffee plants thrive in year-round hot weather) American coffee shops cannot wash their own seeds. This method of preparation involves working with seeds immediately after harvest. If washing is used, the outer layer of the seed is stripped away and the seed sits in water for 24-48 hours. During that time, the seed begins to take on the flavor of its surroundings, producing a clean and distinctly tasteful seed. Seeds left unwashed follow the traditional method,

which produces more bitter coffees. The newer washing process is generally considered to be a luxury and while more expensive, can create a more distinct flavor profile (Crema, 2016).

While *Indah* obviously does not participate directly in the washing method, it is important to understand the importance of this step. The decision to wash or not, like a decision on the type of roast, is typically a personal preference based upon factors such as region and preferred taste. The best roasters have the ability to create a wide variety of roasts originating in a vast array of countries and coffee-growing regions. Drier climates such as some areas of Brazil, Indonesia and Ethiopia greatly favor an unwashed or natural method. This decision does not make the region's coffee inferior. In fact, it makes it unique. It is not until regional differences and method of washing are considered that the roast spectrum shown in Figure Four becomes a coffee wheel full of distinct flavor profiles. Figure Five below, taken of a chart hung in one of *Indah's* dining areas, illustrates the importance of the coffee itself in *Indah's* business model.



**Figure Five: Picture of Coffee Wheel Hanging On Indah Wall**



## Quality is King - Product versus Brand

*Indah* is committed to roasting and selling high-quality coffee. While this focus on quality seems redundant, recent marketing studies have shown otherwise. Atlanta-based marketing expert Al Ries, for example, explains that brand is usually far more important than quality. As an analogy, Ries points out that J.K. Rowling's book, *The Cuckoo's Calling*, written under the pen name Robert Galbraith sold less than 1000 copies, despite being well-received. When it was revealed that later Rowling was the author, the book sold more than 1 million copies worldwide. It was the name, not the content, that sold (Ries, 2014). Nowhere is this more prevalent than in the food and beverage industry.

**Figure Six: Keeping with the shop's aesthetic, the menu is hung on two pieces of wood**



In 2017, the winner of the Decanter World Wine Platinum Best In Show Award, given to the best-tasting wine in the world, was a \$6.29 bottle of Malbec. After a series of blind taste tests conducted by 240 of the world's leading wine experts, the Chilean wine sold exclusively in Walmart outperformed more than 16,000 other bottles to take home the title. However, a wine's price is not determined by its quality, but on the perception of its brand. Sales of the Chilean Malbec did increase after its award, but the price stayed under \$10. Other wines continue to sell for far more, despite losing in a taste test (Pomranz, 2017). In his article, almost as an aside, Ries notes that Starbucks is the most successful coffee company, despite poor showings in taste tests. This does not mean that the coffee giant does not pay attention to quality, but simply that it continues to outsell smaller, better tasting brands. He then argues that most companies want to focus more on the perception than the reality of their brand (Ries, 2014).

But *Indah* tries to focus on the coffee over the brand. Rather than elevate itself, the company pushes “cafe culture” and tries to teach others about coffee. Hausser mentioned repeatedly, usually unprompted, that the goal of *Indah Coffee* is to spread a love of coffee and coffee roasting. The coffee is the center of attention, even if it does not always lead to an increase in sales. This is not all that uncommon. The top sources to consult for coffee washing, roasting and brewing methods are often blogs published by smaller coffee roasters like Crema and Caffe Society, referenced above. When it comes to this specific product focus, *Indah* is no different from other small coffee roasters, most of which seek to educate the general public about coffee and coffee roasting. But while *Indah* may not be completely unique in the small coffee roasting industry, it is these small roaster coffee shops that challenges traditional business notions of branding.



Many small coffee shops like to follow this idea of educating the general public. Maybe it is an attempt to fight back against an industry dominated by two major corporations, both of which have been accused of focusing more on brand than product.

**Figure Seven: Market Share<sup>1</sup>**

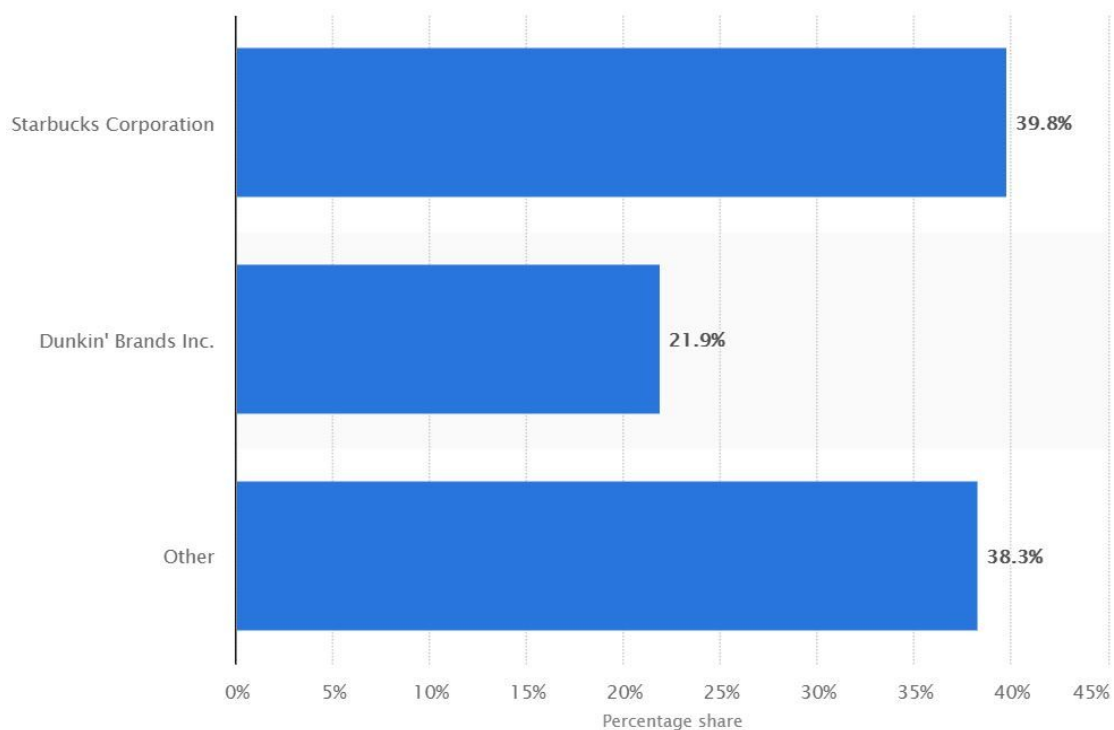


Figure Seven is a snapshot of the market share in the coffee industry in 2016, with Starbucks and Dunkin' making up a combined 61.7 percent of the total coffee market. Both of these began as smaller coffee shops focused on quality coffee. In fact, Starbucks began in Seattle as a company dedicated to bringing quality coffee to the general public. As it started to gain traction, future CEO Howard Schultz approached the company, envisioning a retailer focused on bringing a “third place” aspect to the market. This idea, first put forth by Ray Oldenburg, will be

<sup>1</sup> Figure from Statista (Statista, 2016).

further explored later. When Schultz suggested this, the owners of Starbucks balked at the idea and Schultz left to found his own small third place, *Il Giornale*, an early coffee shop in the same vein as *Indah*. The idea of a third place is, according to Ray Oldenburg's book *The Great Good Place*, any gathering place outside of an individual's first (home) and second (work) spaces, (Oldenburg, 1991).

In order for the city and its neighborhoods to offer the rich and varied association that is their promise and potential, there must be neutral ground upon which people may gather. There must be places where individuals may come and go as they please, in which no one is required to play host, and in which we all feel at home and comfortable" (Oldenburg, P. 22).

However, this idea was unpopular at the time. Beginning around seventh-century A.D., coffee shops were a public gathering place to discuss topics such as politics and religion, much like the public squares of Greece and Rome.

In Colonial America, coffee shops and taverns were a center of political discourse. Boston's Green Dragon Tavern was even considered "the Headquarters of the Revolution" by Daniel Webster (Colleluori, 2015). By the 1970s, however, coffee shops tended to be viewed by owners as a means of making money rather than a public forum.

When Starbucks began to struggle, Schultz bought out the retailer and began to implement his plan to transform it into a third place that could thrive in a variety of major markets. Schultz was so dedicated to quality and consistency that he refused to franchise for fear that individual franchises would mess up the product from bean to cup.

As the company grew, this product-centric approach morphed into a focus on brand. Soon, Starbucks expanded into markets that favored tea over coffee (Gulati, Huffman, and Neilson, 2002). Today, the coffee giant is known for its relationships and its' brand. While the company still tries to emphasize quality coffee and coffee education, this aspect is often overshadowed by promotions such as the infamous Unicorn and Pokemon GO Frappuccinos, neither of which contained any coffee (Roy, 2017). The company that began by emphasizing high-quality coffee beans makes only 58 percent of its revenue off of beverages (According to its 2016 end of year financial report, which does not separate coffee, tea and other drinks) and only 3 percent from sales of whole bean coffee.

This strategy has obviously paid off in a tangible way. The retail giant holds a nearly 40 percent share of the coffee market and brought in nearly \$14 billion in revenue in the 2016 fiscal year (Starbucks, 2016).

However, there is a growing market segment, aided by the rise of smaller coffee shops, excited about the opportunity to teach customers about quality coffee. Many of these shops want to be part of the exclusivity and status that can come with gourmet coffee. As one would expect, this segment of the market is made up of young professionals willing to spend more for exclusive coffees. In recent years, a craft coffee market has reopened, much like the craft beer market has expanded. Because the beer market is more easily segmented and more clearly defined, we can look at this industry to illustrate this point more clearly.

Unlike coffee shops, the differences in beers and breweries are clearly defined by production capacity. A “craft beer” is any beer produced at a small independent brewer with

annual production of less than 6 million barrels. Beers in this vein made up just 12.7 percent of the total U.S. beer sales in 2017. But even as overall beer sales decline, the craft beer market is booming. In 2017, beer sales declined by 1.2 percent, yet craft beer sales grew by at least 5 percent for the sixth straight year. In an up-and-down industry, smaller breweries are finding success by focusing on quality and differentiating their products. IBISWorld's most recent industry report puts it this way.

Consumers have increasingly purchased craft beer for its perceived higher quality, greater attention to detail, finer ingredients and wider variety of flavors than traditional light beers. (IBIS World, 2017).

The top two companies in both the coffee retail and beer markets make up more than half of each industry's respective total sales. Microbreweries, like gourmet coffee shops, have found that the key to competing in a market dominated by industry giants lies in the attention to detail. Microbreweries and other craft brewers have found opportunity for growth among a new generation of beer drinkers, most of whom have different tastes than the preceding generation. This new market has shown interest in beers with a higher perceived quality and a wide variety of flavors, often branching out and drinking different beers rather than drinking one brand.

Figure Eight: Beer Sales by Volume 2017<sup>2</sup>



Smaller breweries have capitalized in recent years as this generation of product-focused consumers “comes of age”. As mentioned above, millennials (at least in the USA) typically tune out advertisements more regularly than other generations and thus are generally less brand conscious (Pasquarelli, 2017).

<sup>2</sup> Figure from National Brewers Association (Watson, 2018).



Because of these similarities, microbreweries and gourmet coffee shops have been able to target similar markets, an opportunity upon which *Indah* has been able to capitalize. After moving to a brick-and-mortar facility in May of 2017, the shop added local craft beer as a menu option.

**Figure Nine: Cottontown Brew Lab Beers on Draft at Indah**



Rather than brewing its own beer, *Indah* partnered with local breweries to offer them an off-site channel to sell their beer. With the option for five beers on tap, *Indah* is able to draw new customers from the same age demographic without the need for extra marketing.

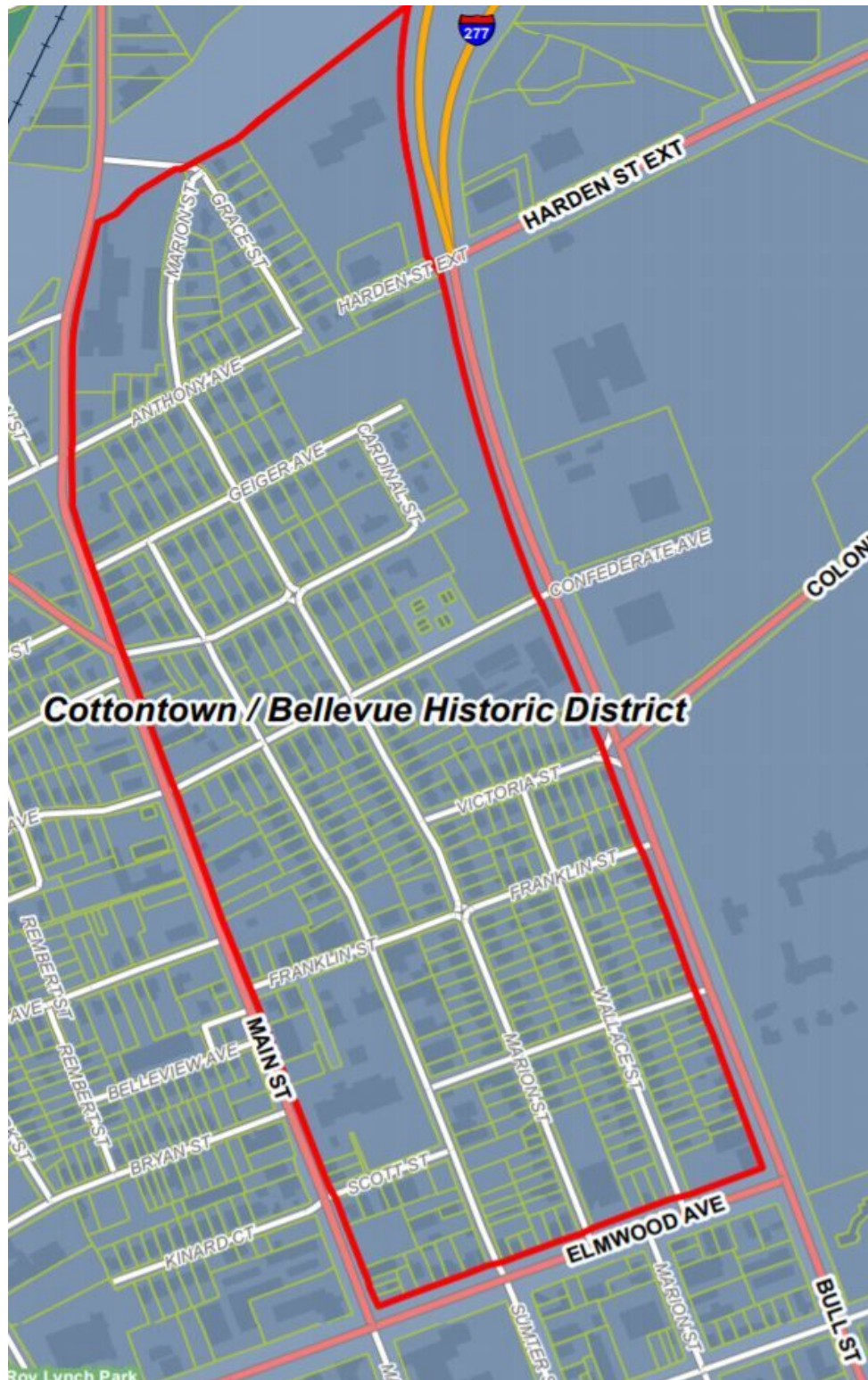
But *Indah* took this idea one step further. Partnering with “CottonTown Brew Lab”, *Indah* helped create its own unique beer without having to brew anything on-site. The concept is simple, CottonTown Brew Lab, located less than 300 feet away, created a unique milk stout to combine with *Indah*’s dark-roast coffee. The result is a niche beer brewed and sold locally. And while this is an example of an easy, productive strategic alliance, it also shows the company’s local focus.

## **Engaging a Neighborhood**

### **What is Cottontown?**

Hausser was born and raised in Columbia. For the greater part of his adult life, he has lived north of Elmwood Avenue, in the historic Cottontown/Bellevue area. Traditionally, this area has been considered a poorer area of Columbia and most of the neighborhood is still considered a food desert. However, the city of Columbia started several years ago to lay the groundwork for a neighborhood rebranding and revitalization effort several years ago, one that is just coming to fruition. *Indah* is just one of several new businesses, most locally-owned, to arrive in the area over the past two years. In fact, the area is now being referred to by some as “Coffeetown”. Not two weeks after *Indah* launched its brick-and-mortar store in the old Dunn Electric Building, *Curiosity Coffee Bar* opened in nearby Vino Garage, a specialty wine and beer store on North Main Street. In addition to the two coffee vendors, The War Mouth opened in the area in December 2015, bringing an influx of out-of-neighborhood patrons to the neighborhood. In an interview with *The Free Times*, The War Mouth co-owner and local developer Frank Cason explained that he and his fellow owners used an exhaustive search before settling in the Cottontown. Since then, he has helped bring other businesses to the area (Moore, 2017).

**Figure 10: Map of Bellevue/Cottontown**





Unlike Hausser though, Cason had not lived in the area nor had he spent much time north of Elmwood prior to opening the restaurant—he had only heard about the area. He told *The Free Times*, “I’m from Columbia and lived here all my life and honestly didn’t know much about it. My impression was ‘Don’t go north of Elmwood,’” (Moore, 2017).

However, upon entering the area, Cason found the area to be much different than he had been told.

“There’s probably no area in Columbia that has that big of a gap between perception and reality,” Cason said. “Many people perceive that area as blighted not just commercially but residentially. The commercial needs help, but the residential is very nice. Lot of millennials, empty nesters,” (Moore, 2017).

**Figure 11: Indah still has photos leftover from Dunn Electric Company, who previously occupied the Sumter Street Building**



As more business owners begin to see through this incorrect perception, they've latched onto the lower rents and moved into the area. However, this influx of new businesses has been met with some opposition. This is not uncommon, as fears of gentrification are real, even if these businesses owners themselves are able to gain the trust of the area's residents. While it is too early to know if property values are rising significantly, the area is surely gaining popularity.

### **A Perception Problem**

But this case unique. The problem lies in the perception, not the facts. Cottontown is not a poor area. In fact, according to 2014 U.S. Census data, the two-square-mile area of Columbia north of Elmwood is actually slightly more affluent than the city at-large. Furthermore, more than half of the area's homes are owner occupied. Hausser, as a longtime resident of the Cottontown area, recognizes this gap in perception.

If you can get people over the stigma of being on the other side of Elmwood — which I am really comfortable with, I've lived over this way — I think a lot of people in Columbia don't get it ... I see tons of potential over (on this side of Elmwood). And yes, we may have had some initial challenges like letting people know we're here, but I think this is not a stretch for anyone to drive downtown ... When you add in the fact that you don't have to deal with parking meters — I'd be willing to drive an extra 5-10 minutes to just not have to deal with parking meters (Hausser, 2018).

For Hausser and *Indah*, this incorrect thinking has actually helped. The problem lies in the definition. While many, including some Cottontown residents, consider Elmwood Avenue to

be the dividing line between Columbia and North Columbia, the line actually lies further north, according to the U.S. Postal Service. The Cottontown/Bellevue area therefore is just an extension of the Columbian downtown, sharing a zip code with that area of the city. Even residents are sometimes unsure of exactly how to classify their neighborhood. So for businesses like Hausser's, the Cottontown area can have the same benefits as the downtown strip, but with added perks. He mentioned the ease with which trucks can park and deliver shipments of coffee seeds thanks to the extra space in the Cottontown area.

Until recently, the vagueness of the area's defined borders had few practical consequences. However, in recent years, Columbia has undertaken a serious rebranding effort in the Main Street corridor, prior referenced in the Soda City market section. As the city began to revitalize the area directly surrounding the state's capitol, Elmwood Avenue became the de facto cutoff. As Main Street underwent this transformation from about 2008 to 2016, businesses flocked to the area surrounding the state capitol, neglecting the area north of Elmwood. Part of this can be directly attributed to the stigma surrounding the Cottontown area, but at least a part of it was simply due to the vague definition of the term "downtown". Even now, there is some debate over whether Main Street should turn into North Main Street at Elmwood or further north.

Regardless of the reason for this gap in perception and reality, Cottontown residents began to realize that they themselves would need to actively fight to change their seemingly unmerited reputation.

Eva Moore interviewed two men that expressed this idea in her article for the Free Times. Local business owner David Roberts summed up the area's predicament nicely.

“We’re struggling for an identity. Everyone knows Main Street, the Vista, Olympia. What do we call our little section of Main?”

The fact of the matter is that the area is diverse, influenced by both the Columbia downtown on one side and the poorer North Columbia area on the other. As the area struggled to find its identity, its perception among outsiders has suffered. But while this has been detrimental, the problem is one that most residents do not consider difficult to solve.

Paul Bouknight, the head of the Cottontown/Bellevue Historical Neighborhood Association, explained the neighborhood’s public relations campaign to change the narrative in Moore’s article.

Our neighborhood had always been on the defensive. A few years ago we decided to go on the offensive ... Our great concern is not to hurt the quality of life in our neighborhoods. Life is good in Cottontown, Elmwood Park and Earlewood. It’s quiet, [with] family-centric neighborhoods. We’re a bunch of porch dwellers ... We don’t want what happened in Five Points where it has metastasized into the neighborhoods, parking and so forth. We want the business, but we want it contained and we want to maintain the privacy of our neighborhoods.

So the neighborhood began the work to bolster its reputation. As much as it could, Cottontown tried to bring in businesses by keeping rents low and using federal grants to improve roads, all while trying to protect the neighborhood’s residents. For some like Hausser, the incentives made moving to the area possible.

I've lived in this community for years and observed that people have bought houses in here and fixed them up. This side of town is terribly underserved. I guess I first observed that as a consumer more than a business owner and had thought I'd love to do something. At first I started thinking, "I wish we had one of these over here, I wish we had a place to go eat." But in terms of also knowing that there's probably a reason other places haven't come over here yet. I thought, "Am I missing something here?" that kind of feeling. This was one of the top areas we were interested in, maybe partially because I know it, partially because I see potential. All these old buildings have so much character. We're surrounded by some rough patches, but there are some really good communities here (Hausser, 2018).

For other new owners in the area, the business-friendly improvements have been the key deciding factor. As the businesses have moved to the neighborhood, so have new residents, a hotly debated trend in the realm of city planning.

### **Which came first, the chicken or the egg?**

There is shockingly little literature on the relationship between residential and commercial growth. Throughout the literature that does exist, there is little consensus about which of the two drivers influences the other. In fact, there is so little research on this topic that I had to scale back my own efforts because I did not have the resources to fully complete this type of research.



One early study by Richard Muth suggested that employment is slightly more responsive to migration than migration is to employment. In other words, jobs follow people more often than people follow jobs (Muth, 1971). However, just 16 years later, Carlino and Mills concluded the opposite, suggesting that people are more likely to move for jobs rather than employers relocating to more populous areas (Carlino & Mills, 1987).

Later, Partridge and Rickman conducted a study using an integrative labor marketing framework, attempting to challenge these beliefs. Simply put, the two believed that by looking at labor market indicators such as employment wages, unemployment rates and labor-force participation rates and accounting for economic conditions, they could answer the question. Instead, they found that the causation of either is difficult to prove (Partridge & Rickman, 1999).

Furthermore, all of these studies focus on the migration of large companies. Each studied the population effects on entire cities when manufacturing plants migrated. The topic at hand here is different though. None of the new businesses in the Cottontown neighborhood have brought with them a large number of jobs. Instead, they've brought customers. According to a 1989 study by Greenwood and Hunt, this should not be the case. They argue that migrations are caused by jobs, not amenities. Yet, Cottontown is growing thanks to businesses that are bringing hundreds of customers and only a few dozen jobs. City planning is a complex issue, especially when considering the ideas of gentrification and neighborhood pride. It may be too difficult to give a clear answer regarding causation, except to say that it truly depends.

While this was interesting to dig into, it was quickly apparent that I lacked the expertise, time, and money required to adequately address this problem. Because of this, I allowed it to

remain in the back of my mind, but I could not adequately expand upon it in this context. It's an issue that I had never considered, but one that flavors the day-to-day of small business decisions.

## Wrapping It Up

### Project Takeaways

Entering this project, I anticipated learning only what I needed to know to complete the paper and defense, but came away with much more.

First and foremost, while the product focus of *Indah* didn't surprise me in the least, the literature about the lessening importance of the product in marketing and advertising did. I've observed that some larger companies do push their brand over the quality of their product, but the extent to which many companies go to promote the brand as a whole — often at the expense of product quality — really shocked me. It took some digging into the numbers to confirm a couple of daily observations I thought to be true, but the brand versus product narrative is one to which I'll continue to pay close attention, even after graduation.

Second, I was surprised at the similarities between the beer and coffee markets. Both markets are dominated by the two largest companies and a sub-market of craft drinks has emerged. These smaller companies in both industries are dedicated to quality over brand and often encourage customers to learn more about the production process. Furthermore, while sales in both industries have stagnated in recent years, the craft beer and coffee markets are growing steadily, something I've noticed on a local level, but never had the numbers to prove on a large scale.

I essentially fell into grounded theory, which can get complicated, but its a research method that appeals to me as a social person. I've been interested in the consumer behavior segment of marketing for several years now and the grounded theory method of research appeals to that interest. Furthermore, I found the method quite natural. Several of my observations served multiple purposes. I could meet a friend, do work for another class, or read a book — so long as I paid enough attention to my surroundings to form opinions on what I observed. Over the course of my scheduled observations, I purchased eight different coffee or espresso drinks, four different food items, and three unique beers. The work never felt like work, which made it easier.

The last thing on the marketing side that I will take away from this project is the effectiveness of good grassroots marketing. An effective grassroots campaign only occurs when the product being promoted can almost sell itself. In that case though, word-of-mouth marketing can be even more effective than a complex (and often costly) marketing campaign. *Indah* basically sold itself. Customers came to taste a product they heard was of the highest quality. The two keys here being that the coffee is considered high quality and that the source that told them was not an advertisement, but often a friend or even a magazine or blog (Food and Wine named *Indah* the best-tasting coffee in South Carolina last year).

When I graduate, I am returning to Charlotte, North Carolina to start a business. The idea is unique, and I believe I can offer a high-quality product. If so, I won't pay to advertise anywhere. This study showed me that friends and family are the best advertisers money can't buy. Connections are key, and even high-quality advertisements are often less effective than a loyal customer's word.

Lastly, I had originally planned to split this project up into two parts, one about marketing and the other about neighborhood development. However, when addressing the neighborhood aspect of the Cottontown area, I found that I was out of my league. I lacked the time, expertise, and money to properly study the neighborhood. What is written in the above paper is all I felt comfortable addressing. The rhetoric in this area of study is often racially and politically charged, and too complicated for me to properly understand and adequately address. Fears of gentrification are real to some residents of the Cottontown area. Facts aside, emotions can run high and while businesses like *Indah* can bring economic benefits to the area, there will still be tensions on some level.

If I were given the resources required to complete a study of this sort, I'd love to analyze the economic and social changes over the course of a 10-year period in a growing area such as Cottontown. In addition to looking at property values, rents, taxes and incomes, I'd like to dive into a qualitative research revolving around the relationships between long-time residents and new business owners. In my opinion, no one is in the wrong, but it is a topic to discuss. Businesses are not trying to change the area and residents are not trying to sabotage new businesses, but things can still be tense.

### **Final Thoughts**

I thoroughly enjoyed this entire process. While, in hindsight, I wish I knew back in October that my final product would look like this, (It would have saved several unfruitful trips down rabbit-holes) the process has been helpful and informative. If someone had approached me

last year and told me that I'd end up writing a 40-page article on *Indah Coffee Co.* for my thesis, I probably would have laughed. Regardless, it's been an incredible journey.

I'd like to thank some people that have been instrumental in this process. Dr. Erickson, who had patience with me through every idea (both great and terrible) and really helped me delve into the theory of marketing. Kayla Stephens, who never questioned me when I said I was a bit behind, and graciously gave up time out of her schedule to come to my defense. Seth Crain, Josh Hinson, and Briley Steele, who came to my thesis defense on a Friday night and listened as I droned on about topics that might only mildly interest them. Christin Stipp, for listening to my insane ramblings and encouraging me through the entire process. Lastly, to the Honors College, for giving me freedom in this pursuit, not boxing me in, and encouraging me to pursue every crazy idea my brain could imagine. Thank you all.

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