

## Kraft has \$1.5B gun in Starbucks battle

By JOSH KOSMAN and PAUL THARP

Last Updated: 2:12 AM, November 30, 2010  
Posted: 1:57 AM, November 30, 2010

A nasty spat between two of the country's best-known coffee brands threatened to spill into grocery store aisles yesterday when Maxwell House owner Kraft Foods said Starbucks had no right to end its \$500 million-a-year licensing deal.

Kraft, which has distributed Starbucks brand coffee to grocery stores for 12 years, made the comments as it fought back against the coffee retail giant's claim that it failed to "protect and promote" the Starbucks brand.

For its part, Starbucks is attempting to grab back the lucrative license -- and perhaps sign a less costly deal with another distributor.



Kraft, in a statement, said if Starbucks wanted to void its deal, which runs through 2014, it would have to pay it "fair market value," plus a premium of as much as 35 percent. That could amount to roughly \$1.5 billion.

Kraft, which earns about \$100 million from the Starbucks license, isn't eager to lose the cash stream.

Industry experts said Kraft for years has earned whopping fees, about 20 percent, which are much higher than usual fees for grocery marketing. Most deals are in the 2-to-3 percent range.

"Kraft is in a tough spot. They need the Starbucks brand," said Rick Shea, president of Shea Marketing, which first disclosed the coffee spats in a research report two months ago.

Moreover, Kraft also is said to be planning to find a buyer for Maxwell House in 2011, which may have added to Starbucks' discomfort, banking sources said.

Meanwhile, another huge grocery marketing firm with a reach broader than Kraft's in-house grocery group is waiting in the wings.

Starbucks is depending on its separate marketing pact signed last year with Acosta Inc., the nation's largest supermarket marketing outfit, to market Starbucks' instant coffee product, Via, in stores.

"Starbucks wants to cut out Kraft and take control of its brand and do more for less," said Shea, adding that the Seattle café king lost the lead in supermarket coffee sales to Dunkin' Donuts and Green Mountain Coffee.

"Starbucks needed Kraft when they launched years ago, but they don't need them so much now," Shea said.