

Business Case – Heavyweight Disposable Tea Filters for AeroPress Coffee Makers

Allie Grace Garnett

1. Introduction

The AeroPress, made by Aerobie Inc., is similar to a French Press coffee maker. It is most commonly used to make coffee but also can be used to brew loose leaf tea. The AeroPress can be used both upright and inverted. It has several reusable parts but requires single-use, disposable filters to operate. The coarseness of the ground coffee grains, the density of the tea leaves, and the weight of the filter paper each affect the taste and quality of the brewed beverage.

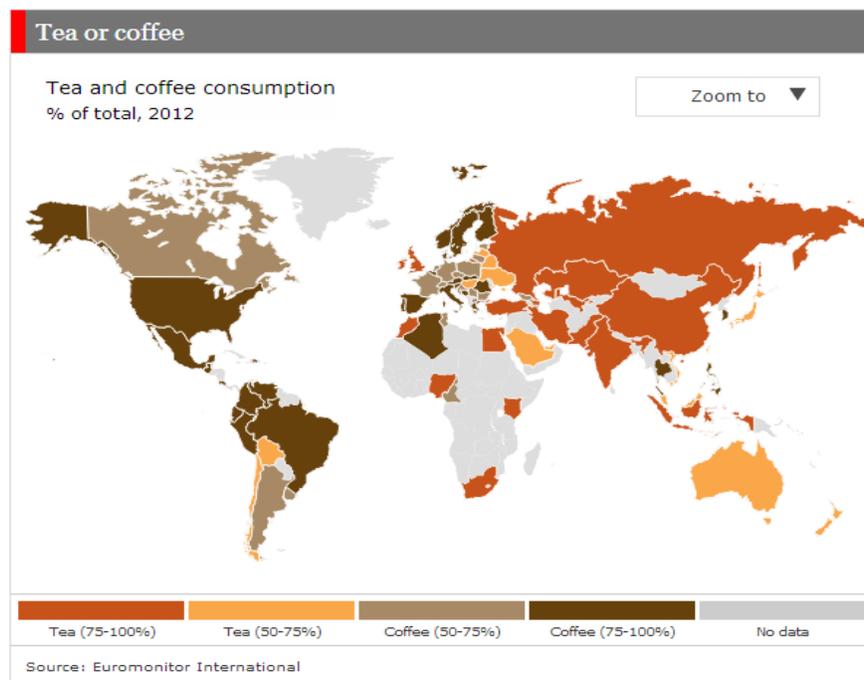
To brew loose leaf tea, it is desirable to slow the rate at which the water drains through the filter to increase the brew time. This requires either a thicker filter, which is not widely available, or the use of two “standard” filters. There is an opportunity to supply the marketplace with thicker filters that produce high quality brews of loose leaf tea.

2. Market Assessment

Below is an assessment of the tea market and the presence of AeroPress, and AeroPress-compatible filters, within it.

The Tea Market

Tea is the most widely consumed beverage in the world other than water, and can be found in almost 80 percent of all U.S. households. Although globally tea drinkers outnumber coffee drinkers, there are wide regional variances. As shown in the graphic below, daily coffee drinkers in North America outnumber tea drinkers by a ratio of 3:1.



The tea market is growing, however, much of the growth is in ready-to-drink tea beverages. The U.S. packaged tea market was valued at \$7.62 billion in 2016 with sales projected to reach \$8.01 billion in 2017

and \$9 billion by 2020. Tea bags are by far the most popular method of consumption, comprising nearly 60 percent of the market, followed by loose leaf and other segments. The market share for loose leaf teas is about 10 percent, or about \$762 million in 2016. There is little growth expected for the loose leaf tea segment.

The major sales channels for tea are convenience stores, supermarkets, and general merchandisers, in addition to online retailers. There are an estimated 3,000 specialty tea outlets that present a diverse selection, including a variety of loose leaf teas. Many of the specialty tea outlets also retail online, with roughly 10 percent of gross sales coming from online channels.

The driving force of the tea market is tea's numerous health benefits. Health-concerned consumers are often drawn to tea since it is naturally laden with antioxidants, catechins, and epigallocatechin gallate (EGCG), all of which are positively linked with health benefits and disease prevention. Among the numerous health benefits, the high antioxidant levels aid in abetting arthritis, and tea can also help prevent various cardiovascular and degenerative diseases, improve bone density, and lower blood pressure.

The AeroPress

The AeroPress is a very popular, low-cost coffee maker that can also be used to make tea. Over one million units of the AeroPress have been sold since 2005. The AeroPress is reviewed very favorably on Amazon, with an average rating of 4.6/5 stars and more than 5,000 reviews. Although the AeroPress can brew both coffee and tea, the device is much more widely known and used as a coffee maker.

The disposable filters are sold by Aerobie directly and also by several other manufacturers. A package of 350 filters retails on Amazon for \$4.95 (~1.4 cents/filter). Larger quantities are also available, for roughly the same unit price. By contrast, disposable filter bags used for hand-brewing loose leaf teas retail on Amazon for ~2.4-4.4 cents/filter. In addition, many reusable metal filters are available for hand-brewed loose leaf teas.

3. Business Opportunity

Brewing loose leaf tea, or finely ground coffee beans, with the AeroPress often requires the use of two "standard" disposable filters. "Standard" disposable AeroPress filters have a mass of 40-50 grams. At this thickness, standard filters are well-suited for coarsely ground coffee beans but frequently inadequate for more finely ground coffee beans and loose leaf teas. By offering a disposable filter that is 80 grams, twice as thick as what is currently available, there is an opportunity to better serve customers who use the AeroPress for tea or prefer their beans to be finely ground.

For AeroPress users accustomed to using two filters each time they brew, the availability of a thicker filter for less than the cost of two "standard" filters would be an attractive value proposition. Not only would customers accrue cost savings, but also they would not on a daily basis need to "improvise" with standard filters that are ill-suited to their needs. The small package size of disposable filters enables online retailing (primarily via Amazon) as a viable option.

The obvious benefit of selling this product would be, at least initially, owning 100 percent market share of heavyweight AeroPress-compatible filters. In addition, there may be follow-on opportunities to offer other disposable filters of varying thicknesses, or to sell other heavyweight filters that are compatible with coffee makers other than AeroPress.

4. Financial Analysis

This analysis assumes a landed cost of \$4 per bag of 350 heavyweight (80 gram) filters. The Amazon fulfillment fee per unit for items of this size is currently \$2.41. The landed cost plus Amazon fulfillment fee yields a total cost per 350-count bag of \$6.41.

The standard-weight filters currently on the market retail on Amazon for \$4.95 per 350 filters (~1.4 cents/filter). Matching this price is obviously not possible; however, as users desiring thicker filters are currently using two filters per brew, it is possible to consider a retail price of up to \$9.90 per 350 filters. Below is a chart that demonstrates the gross profit margins for a range of price points:

| Retail price | Gross Profit Margin |
|--------------|---------------------|
| \$6.41 | 0.0% |
| \$7.00 | 8.4% |
| \$7.50 | 14.5% |
| \$8.00 | 19.9% |
| \$8.50 | 24.6% |
| \$9.00 | 28.8% |
| \$9.50 | 32.5% |
| \$9.90 | 35.3% |

This analysis indicates that a price above \$6.41 is required to be profitable. In addition, the price would need to be below \$9.90 to provide a cost-savings incentive to customers. Although the above analysis only considers the direct cost comparison between 350-unit bags, Amazon also retails disposable AeroPress filters in bulk quantities. 1,050 filters can be purchased for \$15.99, which equates to 1.5 cents per filter. Although counter-intuitive to the economic principle of economies of scale, it may be possible to sell heavyweight filters in bulk for slightly greater profit margins than those indicated above.

In contrast to disposable AeroPress filters, conventional disposable tea filter bags used for brewing tea on a stovetop retail on Amazon for ~2.4-4.4 cents per filter. Given a maximum retail price of 2.8 cents per filter for the proposed “heavyweight” AeroPress disposable filters, the cost of conventional filters ranges from 85-157 percent of the cost of the heavyweight filters. Therefore, there is ample margin for heavyweight AeroPress-compatible filters to compete with conventional disposable tea filter bags.

Based on this financial analysis, there is an opportunity to sell heavyweight disposable tea filters that achieve a desirable profit margin while also saving customers money, in consideration of both standard-thickness AeroPress filters (used two at a time) and conventional hand-brew tea filter bags.

5. Risk Assessment

Despite the potentially attractive economics, there are several risks associated with producing a heavyweight disposable filter for AeroPress machines. The primary risk is insufficient market size. AeroPress does not heavily market itself toward tea drinkers, and loose leaf tea comprises a small share of the overall tea market. In addition, the thickness of the “standard” filters currently available is not a salient marketing point, so the purpose and value of a heavier filter may not be immediately apparent to potential customers.

From a functional standpoint, although the AeroPress is capable of making coffee or tea, AeroPress owners predominantly use their machines to make coffee. In addition, AeroPress machines used to make coffee must be vigorously cleaned before brewing tea in order to not impact the flavor of the tea, so there is a natural disincentive to use an AeroPress machine for both coffee and tea. AeroPress users that have attempted to brew tea have not always been successful either – they have encountered various issues involving timing, water temperature, leaves in the teacup, and reduced flavor due to the presence of the paper filter. Many AeroPress owners may use their machines for coffee and still prefer conventional methods for brewing tea.

To undertake a successful marketing campaign, it would be necessary to promote both the functional ability of the AeroPress to make superior tea and also the heavyweight filters as necessary for achieving the desired results. It would be an incomplete and potentially unsuccessful effort to focus only on marketing the filters without also trying to expand the AeroPress customer base that utilizes their machines for tea.

6. Options Identification and Analysis

The heavyweight filters could be marketed and sold in several different ways. The primary options are self-branding or white-labeling to a better known brand.

Self Branding: This option would enable maximum retention of gross profits. In addition, by virtue of being entirely self-directed, many different marketing channels would be available. Online retailing on Amazon would be possible, and likely the primary sales channel; however, it would also be possible to physically distribute the merchandise to appropriate sales channels in the local market. Viable outlets may include specialty tea shops, coffee shops, home goods store, grocery stores, and convenience stores. Self-branding would, at least initially, limit the potential for brand recognition as a “household name;” however, paper coffee filters are sold by countless retailers and rarely (if ever) do sellers of disposable coffee filters achieve any meaningful household name recognition. The average buyer on Amazon is much more likely to make purchasing decisions based on price rather than any recognition of the brand.

White Labeling: If the product is “white labeled” and sold wholesale to a large distributor, the gross profit margin would be lower but the sales volume would potentially be much higher. Choosing the white label option would predominantly limit sales to only via the distributor with which there is a sales agreement in place; however, such an arrangement would also keep marketing costs at a minimum and may, by contractual agreement, ensure a steady stream of revenue. It would be imperative to find a distribution partner with large sales network, such that the profit margin lost by selling at a wholesale price is regained through significantly increased sales volume. This would require careful vetting of numerous potential distribution partners before a suitable one is chosen. In addition, without proper contractual agreements in place, there would be an inherent ongoing risk of the distribution partner “going direct” and either directly manufacturing or otherwise procuring the heavyweight filters itself.

7. Recommendations and Conclusion

Given that the market for disposable AeroPress coffee filters lacks a clear, well-branded leader (other than AeroPress maker Aerobie itself), and Amazon provides a viable channel for high-volume online sales, self-branding is the recommended option. However, the small market size of and lack of market growth for loose leaf teas is a concern, as is the relative lack of awareness and ease of use of brewing tea with the AeroPress coffee maker. Based on the financial assessment, there is an opportunity for attractive gross margins, but the market size may be insufficient and not worth the substantial marketing and product awareness efforts that would be required.