



Nicola Cafés Capsules Compatible With Nespresso Machines

Risky Marketing Decision

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Abstract

The demanding and traditional coffee market in Portugal is changing in some of its main components. Consumers, limited financially by the economic crisis, and taking advantage of the growth of coffee machines with capsules, drink more coffee at home, reducing consumption in establishments such as bars, restaurants and pastry shops. The Nutricafés S.A. is the third player of the coffee market in Portugal, and through its main brand, Nicola Cafés will have to choose between two marketing strategies to increase sales and profitability of the company, due to pressure from its shareholders. The first option will be to invest in the core business, and increase the range of clients such as restaurants, improving their contracts and technical assistance. The second option will be to innovate, and enter the promising market of coffee capsules, launching a compatible capsules range with Nespresso machines taking advantage of the reputation, credibility and tradition of Nicola brand among Portuguese consumers of coffee.

Resumo

O exigente e tradicional mercado do café em Portugal está a alterar-se em alguns dos seus principais componentes. Os consumidores, limitados financeiramente pela crise económica, e aproveitando o crescimento das máquinas de café com cápsulas, bebem mais café em casa, reduzindo o consumo em estabelecimentos como bares, restaurantes e pastelarias. A Nutricafes S.A., é o terceiro player do mercado do café em Portugal, e através da sua principal marca, a Nicola Cafés, terá de optar entre duas estratégias de marketing que aumentem as vendas e rentabilidade da empresa, devido à pressão dos seus acionistas. A primeira opção será a de investir no core business da empresa, e aumentar o leque de clientes como restaurantes, melhorando os seus contractos e assistência técnica. A segunda opção será a de inovar, e entrar no promissor mercado das cápsulas de café, lançando umas cápsulas compatíveis com as máquinas Nespresso aproveitando a notoriedade, credibilidade e tradição da marca Nicola junto dos consumidores portugueses de café.

Key Words: Positioning, Marketing-Mix, Consumer Behavior, Segmentation, Distribution, Integrated Marketing Communication, Coffee Market

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Case Study: Capsules Nicola Cafés compatible with Nespresso Machines

Introduction

In a raining morning of February of 2012, João Abecassis, CEO of the Nutricafés S.A., a company that operates in the Portuguese coffee market and trades the brands Nicola cafés and Chave d'Ouro, was in his office, thinking in the difficult strategic decision that had to be taken to the company's future.

With the presence of several shareholders in the company, the pressure to increase profitability rate increased, and thus, Abecassis had an important meeting with the Board of Directors, in which he had to recommend what strategy the company should follow in the future. The company should choose one of two options regarding Nicola cafés brand. Either invest in the traditional business of the company, out of home, in order to increase their clients range in the HORECA channel, or diversify its product portfolio and launched Nicola cafés capsules compatible with Nespresso machines in a competitive market.

The most iconic brand of the company, Nicola cafés was born before Nutricafés as company existed. The yellow coffee brand was born in 1779, in one of the most well known establishments in Lisbon, "Café Nicola" in Rossio. More than 100 years later, in 1916, "Café Nicola" diversified its business, and started selling coffee brand Chave D'Ouro. Due to the growing awareness of the space, and the sales of coffee, the coffee brands aroused the interest of a large group, the Nutrinveste. Once the group intended to invest in the coffee market, with the goal of creating synergies in the channel out of home, in 1999 acquired Chave D'Ouro coffee brand, and in 2000 the Nicola cafés. After the acquisition of the two brands, created the coffee company Nutricafés, with its factory for mass production of coffee, in Venda Nova, Amadora. Once the company has become a valuable asset, the Nutrinveste group sold it in 2006 to two investment funds, the Explorer Investments, and the MCH Private Equity Investments, each of which has until now 50% of the company and changed the name at the time, to Nutricafés S.A.

Nowadays, Nutricafés S.A. is the third player in the coffee market, and has as main activities roasting, grinding, packaging, distribution and services. The company has more than 8000 clients in Portugal, with over 1 Million Nutricafés coffees served every day.

External Environment

The economic and financial crisis of 2011 dramatically affected the performance of Portuguese companies. With the loss of consumer purchasing power, sales of companies decreased, and they were forced to close. In 2011, 35,000 companies closed¹, what caused negative results from Nutricafés for its stakeholders, with sales falling 2.5%, and EBITDA to decline 11.2%². At the head of the company's CEO, “was absolutely necessary to react, and take short-term measures to restore the 2010 profitability, and so re-occupy a prominent position in the Portuguese market, because in 2011 we had a drop of 20% in the out-of-home channel, which is the core business of the company.”

Other factors concerned Abecassis, who knew that existed in the market, a change in consumer behavior, which in addition to having lost purchasing power, changed their consumption habits, drinking more coffee at home, in coffee capsules machines. In 2010 the penetration rate of the capsules coffee machines in Portuguese households was 68.1%, in 2012 that number increased to 74.2%³, an increase that has been constant over time. A trend that accompanies the release of coffee capsules in the World, which grew 36% in the last five years (see **Exhibit XIV**). The strong competition in the sector was other important factor, with the leader Nespresso getting sales on a large scale, and the Portuguese competitor, Delta launch the capsules brand of coffee Delta Q, meant that Nicola was forced to consider whether enter on this market.

Option A: Investing in Out-of-Home Channel

The first option to react to the company's situation, would invest in the core business of Nutricafés S.A., the out-the-home channel. Abecassis stated, "Investing in increased exploration teams would automatically us to increase our number of clients like restaurants, bars and groceries." In the business of coffee, investment in merchandising and improved contracts with clients makes sales increase, as the awareness levels of brands. This option implied little market research, since the company already had the experience and the know-how needed to start the process of attracting new customers.

¹ Source: “100 empresas fecham por dia em Portugal”, *Jornalismo Porto Net*, 2011

² Source: Information provided by Nutricafés S.A.

³ Source: “Máquinas Café Aumentam Penetração nos Mercados Nacionais”, *Marktest*, 4th February 2014

Option B: Launch capsules Nicola compatible with Nespresso Machines

In the last two years there was a major change in the habits of coffee drinkers, with an increase in home consumption, due to the growth of the market for machines with coffee capsules. This increase in consumption at home is explained by the increase of 102.5% of the capsules in sales volume to 785,000 units, and 116.8% in value to EUR 26.3 million⁴. Despite being a market totally led by Nespresso brand, began to exist in the world, the format compatible with capsules Nespresso machines, which became interesting for the brands of coffee, including Nicola due to the high number of Nespresso machines existing at home Portuguese consumers. The solution devised by Abecassis, would be the launch of Nicola capsules compatible with Nespresso machines, taking advantage of the notoriety and Portuguese nationality of the brand, and increasing product purchase facility, selling in a larger number of Points of Sale, instead of being in unique format. Competing by price and relationship with consumers, Nicola would still have the advantage of already have Nespresso machines in thousands of Portuguese households.

Nicola Cafés history

As stated earlier, Nicola Cafés, was born in 1779 at the emblematic well-known “Café Nicola” located in Rossio, Lisbon. Nicola Cafés is the flagship of the Group, and one of the most prestigious brands in the Portuguese market with 93% awareness levels amongst consumers (see **Exhibit I**). The core business of the brand is the Out-of-Home channel that counts for 76% of its sales (see **Exhibit II**), followed by the Retail channel with 21% (see **Exhibit II**) and Exports with 4% (see **Exhibit II**) in 2013. Regarding the number of products sold for the consumers, Nicola cafés had in 2013 a total of 67 SKUs with different formats and availability in store (see **Exhibit II**). Since that is one of the oldest brands in Portugal, Nicola Cafés built over time strong relationships with their clients due to the centuries that are already in the Portuguese market. However, the brand has always been known to reinvent, rejuvenate, and capture new customer segments besides the traditional ones. Its main targets are younger generations that are starting drinking coffee, and are perceived as modern, attractive, with own preferences and style that like innovation and new products (see **Exhibit III**).

Aiming to regulate the supply of its products to different types of clients available in the market, Nicola Cafés offer a portfolio of products in 3 different ranges. The HORECA range,

⁴Source: “O ano das Cápsulas: Portugueses bebem café em casa”, *Nielsen, 2010*

which is the main source of the company's revenue, where coffee is sold in grains to be ground on the clients (see **Exhibit IV**). The Office range, where coffee is sold in powder, to be consumed on the machines of professional clients (see **Exhibit IV**). And finally, the Alimentar range, where coffee is sold both in grain and powder, in appealing packaging's, in order to capture the different types of consumers. This range is sold in retailers and large Portuguese Distributors (see **Exhibit IV**).

The brand Nicola Cafés has always been known in the Portuguese market for its young spirit, innovative and revolutionary. Abecassis said "if there was a coffee brand in Portugal ready to innovate and launch a new product, this brand would certainly be Nicola Cafés." Through its spirit and positioning could capture the segments intended customers.

Marketing-Mix

Concerning the analysis of the marketing-mix of the brand Nicola Cafés, coffee is mainly produced in grain to be ground on machines or in powder form, to be directly served. Later the coffee is packed in different batches, which are distributed according to the size and profile of the company's clients (see **Exhibit V**). In order to make sure that the product is delivered to customers safely and with quality, Nutricafés S.A. offers a bundle of product distribution, and maintenance. In 2012, the company had a direct sales force of 73 employees, which hedge the out-of-home channel, and 24 technical assistants who do the necessary maintenance of clients (see **Exhibit VI**). Regarding the analysis of the price factor, the coffee is a tradable commodity on international exchanges, with prices determined daily. Thus, in addition to the change in the cost of the coffee, other factors are considered when the company determines the final price to their clients in the Out-of-Home and Office channels such as the investment in POS, coffee machines, service & support, cups, sugar and other equipment. The average price in the channel out-of-home is €17/kg and €14/kg in the Office channel.⁵ In the Retail channel price includes coffee only and is priced higher for own brands vs. private labels. The average price in Retail channel for own brands is €10/kg and €5.9/kg for private labels.⁶ These are prices paid by clients, which later set the final price to the consumers. Communication is done primarily from the brand Nicola Cafés, who is a young, irreverent, creative and innovative. The brand uses various communication platforms to increase their awareness rates.

⁵Source: Information provided by Nutricafés S.A.

⁶Source: Information provided by Nutricafés S.A.

Communication Strategy

After a brief meeting with the Marketing department, Abecassis knew that Nicola Cafés brand communication tools would be very important for the marketing strategy that the Board of Directors decided to take. Abecassis stated that "an integrated communication strategy, and consistent with the decision made, would help the company to have better results in the future."

The company knew that unique high impact marketing strategy drives brand awareness, and so the investment focused specifically on the retail channel and to the final consumer, as well as clients (owners of restaurants and cafés). Nutricafés S.A. uses a variety of marketing and communication methods to promote its brands, products and corporate awareness, but campaigns are focused mainly on brand Nicola Cafés, which has a strong presence in the minds of consumers. One of the main tools used by the company are its own website, where users can find information about the organization, products, campaigns and services (see **Exhibit VII**). Social networks have a key role in communication of Nicola Cafés, due to the large number of people present online, speed of the messages, and the low cost that has this type of advertising. Currently the Facebook page of Nicola Cafés has 29,000 likes, a number that increases every day due to creative brand communication (see **Exhibit VII**). In-store promotions are widely used by the company in order to attract consumers and encourage the testing of their products (see **Exhibit VIII**). Despite being less frequently, the company sometimes uses advertising with higher costs, such as outdoors or TV advertisement (see **Exhibit IX**). Other on-going initiatives include loyalty programs, client events, investment in point-of-sale material, innovation of products and packaging.

One of the campaigns with more impact on the company's history was the Nicola phrases, used in sugar packets, which allowed a great interaction between the consumers of the brand (see **Exhibit X**). Advertise through the packaging, is a global trend that the big brands use, such as Coca-Cola made with the names of people in their cans (see **Exhibit XXIX**). Abecassis stated that "a campaign that had the impact and results similar to the Nicola phrases could again put the company at the forefront of the most creative and innovative ones in Portugal. The company's CEO knew the importance of the communication strategy for the success of the decision that would be taken.

Investment Values

In order to obtain a more quantitative view of the decisions that have to be taken, Abecassis visited the office of the Chief Financial Officer of the company, Dina Heitor. When asked by his boss to explain the differences between the two options, Heitor answered:

“By investing in winning customers in the Out-of-Home channel (**Option A**), we offer a 60-month loyalty agreement, often used in this type of business. This option involves a particular investment in construction, machinery, furniture, and commercial team, in exchange for a commitment to contract at a specified price. The main advantages are the good know-how of the business, the continued profitability (60 months), and the wide dispersion of clients with weak bargaining power. The main disadvantages are the high investment, payback period of 20 months and the risk of infidelity. The total investment would be 350,000 euros, and the total costs 250,000 euros. Income after 5 years would be 1.65 million euros (see **Exhibit XXX**).”

“In relation to the launch of Nicola Capsules compatible with the Nespresso machines (**Option B**), investment in specialized engineers in a production line would be required. It would also be necessary to invest in machinery to produce the coffee capsules, and packaging. The main advantages of this option would be that the market is growing, high profitability in the short term, and a payback period of 14 months. The major disadvantages would be, the weak know-how, the predictable increase in private label competition, and the reduction of profit margins due to price reductions on the part of large retail market such as as Pingo Doce and Sonae. Investment in Human Resources, and machinery would be 1 million euros. In the first 12 months we would have €900.000 sales (see **Exhibit XXX**).”

After thanking Heitor for her help, and carefully write the numbers and the return periods of investment in his Notepad, Abecassis quietly returned to his office, there were still data to analyze.

Traditional Portuguese Coffee Market

Portugal is one of the countries in the world where the espresso coffee culture is stronger. The coffee product, frequently called the "bica", is part of moments of socializing with groups of friends, or simply routine before work. A few years ago, coffee was only consumed outside the home, in pastry shops, cafes, restaurants or bars, so these moments of socialization exist. This culture has been changing in Portugal, with the growth of the capsules market, and the entry of new players in the market.

The dominant channel in the Portuguese coffee market is the Out-of-Home channel, with 76,000 Points-of-Sales distributed between restaurants (6%), snack bars (42%) and cafés (52%), which is associated with the culture of espresso coffee, consumed outside the home, cited above (see **Exhibit XI**). The channel considered more stable, and with a forecast of regular consumption, is the Office Delivery channel where companies regularly offer coffee to its employees. Due to its essence, and location of the major business centers, this channel is highly concentrated in the urban areas of Portugal. The Retail channel had a strong growth due to the increase of private labels, and sales growth of coffee capsules in recent years. The channel is dominated by hypermarkets, supermarkets and small retailers. The market for capsules has grown tremendously, with 45% in households, worth over 50% of coffee market value in this channel (see **Exhibit XI**). Supermarkets account for 58% to the total volume of sales in the Retail channel, and 51% to the total value of channel sales (see **Exhibit XI**).

The Portuguese coffee market is composed of four main players which are Delta, Nestlé, Nutricafés and New Coffee with combined market share of 79% in 2013 (see **Exhibit XII**). These companies have different portfolio of brands with different positioning, in order to reach different targets among the coffee market. The market is populated with several other small players, many of which have a strong regional focus. The single-serve category is having a notable impact on the Portuguese hot drinks industry and the first companies to start investing in this concept have now the first mover advantage and are market leaders. In 2017 it is expected that single-served coffee account for 20% of the overall coffee market comparing to 12% in 2013 (see **Exhibit XIII**).

Coffee Capsules Market

International Market

With the invention of machines and coffee capsules by Nestle, through the Nespresso brand at 23 years ago, the way coffee lovers enjoy the product has completely changed⁷. Market growth of the capsules has been constant, with the release of new capsules in the market for Hot Drinks at the global level, increased 36% between 2009 and 2014 (see **Exhibit XIV**). The growth of the launch of new capsules in Europe increased 61% between 2013 and 2014 (see **Exhibit XV**). According to Euromonitor in 2013 worldwide sales of coffee capsules is estimated in \$10bn⁸. This means that at a global level Nestlé's leadership may be at risk, since there are 130 competing brands of Swiss company, and 50 manufacturing capsules compatible with its machines⁹. Anticipating this explosion of capsules releases, in 2012 after analyzing various reports, Abecassis intended to present to his Board of Directors excellent opportunity that might arise for the capsules market.

Portuguese Market

Due to a strong shift from outside home into the homes of Portuguese consumers, the market for capsules has gained importance in recent years. According to Marktest 75.3% of Portuguese consumers drank coffee at home in 2012.¹⁰ The capsules taken in 2012 to lead in the way the Portuguese consume coffee at home, surpassing the ground coffee consumption¹¹. This change in Portuguese consumer behavior was due to the strong economic crisis, which caused the increased consumption at home in order to save on expenses. Increased supply in the market, of coffee machines and capsules was another of the factors that allowed the growth of this market. According to Marktest, the profile of capsules consumers are mostly adults between 18 and 44 years old, living in large urban centers that belong to social classes A/B. The market in Portugal is divided between two major players, and private labels and compatible capsules has grown significantly. Together, Nestle Portugal and Delta Cafés accounted for 61% share of value sales in hot drinks in Portugal in 2013.

⁷Source: Nespresso Website

⁸Source: "Competition hots up for coffee capsule market smooth operators", *Financial Times*, 2013

⁹Source: "Bad News For Nespresso, Pioneer of the Coffee Pod", *The Wall Street Journal*, 2014

¹⁰Source: "Consumo de Café em Cápsulas", *Marktest study*, 2012

¹¹Source: "Consumo de Café em Cápsulas", *Marktest study*, 2012

Competitors

After a short break, in his thoughts, where he walked away from his office to go get some coffee Nicola, Abecassis noticed that finally someone in the marketing department had placed over his desk the updated report on the Nutricafés's competitors in the Portuguese market. Abecassis could thus begin to form a final opinion on the strategy to be followed by the company, depending on the position of its competitors.

Delta Cafés

Delta Cafés, is the largest player in the Portuguese coffee market. Since it's founding in 1961, the brand has grown to become the Portuguese market leader in 1994, with a great connection to the Portuguese consumers and an awareness rate of 99%.¹² The brand reached almost € 200 million in sales in 2013, corresponding to a value of 22,000 tons of coffee sold per year¹³. Since it is the largest coffee company in Portugal, Delta Cafés has more than 3000 employees, of which 230 are technical assistance professionals to their clients¹⁴. Delta Cafés is a leader in three distribution channels, and its position is stronger in the Out-of-Home. It is also the largest exporter coffee company, with over 25% of turnover belongs to export¹⁵. In the Portuguese market, the company has the coffee brands Camelo and Delta, both with distinct positioning but with strong Portuguese roots.

Regarding the capsules market, the company launched in 2007 Delta Q, a brand with exclusive capsules and coffee machines (see **Exhibit XVI**). Delta Q in 2011 assumed the leadership of the sales of capsules in Portugal, with 35.8% of Market Share, according to Nielsen¹⁶. The importance of Delta Q was such that represented 13% of company sales in just four years¹⁷. In terms of coffee machines sold, the company already has a cumulative total of 400,000 machines in Portugal. For the trade of Delta Q, the company decided to choose the Retail channel, with the sale of capsules in hypermarkets and supermarkets, benefiting from being top of mind of Portuguese consumers¹⁸. However, the brand also has its own shops for leisure time for consumers (see **Exhibit XVII**). The main competitor of Delta Q is Nespresso, and the two brands dominate the Portuguese market for coffee capsules.

¹²Source: Delta Cafés website

¹³Source: Delta Cafés website

¹⁴Source: Delta Cafés website

¹⁵Source: Delta Cafés website

¹⁶Source: "Delta reivindica liderança mercado nacional de cápsulas de café", *Jornal de Negócios*, 2012

¹⁷Source: Delta reivindica liderança mercado nacional de cápsulas de café", *Jornal de Negócios*, 2012

¹⁸Source: Delta reivindica liderança mercado nacional de cápsulas de café", *Jornal de Negócios*, 2012

Nestlé

Nestlé is the second player in the Portuguese market. In order to be able to adapt to various types of customer segments, the company has different brands in the Retail channel, and Out-of-Home channel. In the retail channel, the company sells the Nescafé brand with 75 years old, is the oldest in the market, and with a young and innovative positioning. The brand Sical had a strong presence in the Retail channel, and represents a large investment from Nestlé, with 24.5 % market share on the shelves of retailers according to Marktest¹⁹. Sical had a strong position on consumers mind, with 94% of brand awareness²⁰. Nestle also trades the Tofa coffee brand in both channels, known for its exotic flavor, since originates in Angola. With over 50 years in the Portuguese market, Tofa had 42% of brand awareness²¹.

In what concerns de coffee capsules market, Nestle developed two formats, with different positioning and structures. Pioneer worldwide, Nespresso redefined the way coffee lovers around the world enjoy their espresso coffee through a unique combination of flavors, capsules and machines (see **Exhibit XVIII**). The brand has a premium and unique positioning, being associated with innovative products. Nespresso has 15 stores in Portugal, due to the strong coffee culture in the country²². Much of the Nespresso sales come from their website where consumers can order the capsules, which are delivered in their home (see **Exhibit XIX**). Advertising is world renowned for highlight the high status of drinking coffee, by Hollywood actor George Clooney, with its famous slogan, "Nespresso. What else?" (see **Exhibit XX**). According to Abecassis "Nespresso sells close to 300 million capsules in Portugal every year." The second brand of capsules traded by Nestlé is Nescafé Dolce Gusto, which is sold only in supermarkets and hypermarkets. Dolce Gusto is a young and innovative brand, because it sells different capsules comparing to competitors, such as expresso, cappuccino and chocolate milk (see **Exhibit XXI**). Dolce Gusto has a more familiar position, and practice lower prices compared with Nespresso. The brand is considered a success case of Nestlé in Portugal, because it sold in 2011, 340 thousand coffee machines, an increase of 37% compared to 2010²³. However Abecassis did not consider the Dolce Gusto a direct competitor, if they decide to launch the Nicola capsules compatible with Nespresso machines, because "consumers of Dolce Gusto do not have Nespresso machines."

¹⁹Source: "Delta é a Marca de Fabricante com maior destaque no linear e Sical em folhetos", *Marktest*, 2013

²⁰Source: Provided by Nutricafés S.A.

²¹Source: Provided by Nutricafés S.A.

²²Source: Nespresso website

²³Source: "Nestlé reforça vendas de máquinas Dolce Gusto em 37%", *Diario Económico*, 2012

Due to the severe economic crisis that came to Portugal, there was strong growth in private labels, as consumers intend spend less money while maintaining quality of purchased products. According to Nielsen, in 2010 the private labels of major distributors represented 31.7% of products bought in Portugal²⁴. Therefore, Abecassis considered the large chains of Portuguese distributors as Pingo Doce, and Continente as strong competitors in both the sale of coffee in traditional format, as in coffee capsules.

Pingo Doce

Pingo Doce belongs to the Jerónimo Martins Portuguese Group and is the leading chain in the Portuguese supermarket segment. With an annual growth every year, the group had in 2011 about 280 Pingo Doce stores in Portugal²⁵. The strategy of the supermarket chain undergoes offer certified quality products, at very competitive prices. Pingo Doce positioned itself as a brand that is next to the Portuguese people during the economic crisis, and so built a relationship of trust and credibility, and high rates of loyalty on the part of Portuguese consumers. By conducting a quick consultation within site of the large distributor, Abecassis realized that the supermarket chain had reached 3181 million euros in sales, and it had a sales area of 457,171 m² and therefore concluded that it was a very powerful competitor on sale coffee in Portugal²⁶. However, if the decision would be to launch the capsules compatible with Nespresso machines, Abecassis knew that Pingo Doce could be a major driver of sales, due to their size. "By launching the capsules compatible, we would able to attract more capital for Pingo Doce, because the Nespresso capsules are only sold in exclusive shops of the brand."

Taking advantage of the growth of private labels, Pingo Doce sells various coffee formats. Existing formats are roasted coffee beans, and soluble coffees, traditionally used by the Portuguese.

Regarding the capsule coffee market, Pingo Doce launched at the end of 2010, an own machine to a lower price of around 50 euros in order to allow Portuguese consumers greater facilities in buying the coffee machines²⁷. The brand has built a flavor close to the traditional Portuguese coffee, and gave to the machines an innovative and modernist design (see **Exhibit XXII**).

²⁴Source: "Marcas Próprias vão continuar a crescer depois da crise", *Diário Económico*, 2010

²⁵Source: Pingo Doce Website

²⁶Source: Pingo Doce Website

²⁷Source: "O segredo do café...está no preço.", *Diário de Notícias*, 2010

In the opinion of Abecassis, "the fact that the Pingo Doce, which is the largest Portuguese distributor, had released a unique format is quite interesting, because if Nicola launch the compatible Nespresso capsules, would not have a competitor with this dimension, but a partner in the distribution process of the capsules Nicola".

Continente

The chain of supermarkets Continente, belonging to the Sonae Group, is the oldest in Portugal and the major competitor of Pingo Doce. Due to it being present in the Portuguese market for many years, built a very large trust with consumers. The retail operation of the group accounts for 56.4% of the business, and has about 400 stores in Portugal, in large shopping centers and urban cities²⁸. The turnover grew in the first half of 2011 about 3% compared to 2010, earning 1558 million euros.

In relation to coffee products, Continente sale in supermarkets chain traditional formats of soluble coffee and roasted grain, to offer the same range of products than other supermarket chains, and thus become equally competitive.

One of the great assets of the company is its online sales strategy, through the "Continente Online", which allows the company to sell all products on a larger scale (see **Exhibit XXIII**). Abecassis knew the importance of Continente Online if the strategy followed was the launch of Nicola capsules, as it would allow the online sale and greater communication of the new product. This tool is available to consumers 24 hours a day, making simple and easy shopping, and has campaigns with online discounts.

Continente was preparing to launch in the summer of 2012 a range of compatible capsules with Nespresso machines. Abecassis had the opportunity to read in the newspapers that Continente would launch four types of capsules, *Intensu*, *Platinum*, *Suavissimo* and *Decaf* (see **Exhibit XXIV**). The fact that a large distributor goes to launch these products could only mean that the market had potential and was growing, but also that competition could be very strong.

²⁸Source: "Continente com 25,4% do retalho alimentar em Portugal", *HiperSuper*, 2011

Consumers

As stated above, the traditional coffee consumer changed dramatically in Portugal in recent years, due to external factors such as the economic and financial crisis. The sharp decline of GDP, and a strong cut in the salaries by the Portuguese government removed purchasing power to consumers, and the unemployment rate is fixed at 15.5%²⁹. According to the National Statistical Office, consumer confidence was negative in 2012, which made Abecassis think whether "it would be prudent to invest in new clients in the channel out-of-home, as consumers increasingly consumed less out of their homes. On the other hand, in this business we are good, and work for many years (see **Exhibit XXV**)."

Changes in consumers were not only psychological but also the level of their consumption habits. The Portuguese households are increasingly interested in promotions and discounts, paying particular attention to the price. The focus of their purchases are food, family is fully involved in savings, and increasingly using more Takeaway (see **Exhibit XXVI**).

There was a large increase in promotional activity, and a price war between the Portuguese retailers. This factor and the increase in VAT to 23% meant that consumers were increasingly sensitive and attentive to how much they pay for the products. These changes dramatically affected the coffee business, which is increasingly consumed at home through coffee capsules, and less in restaurants and bars (see **Exhibit XXVI**). The large distributors as the Continente and Pingo Doce increased the product range of private labels, due to the needs of consumers who want to save more and more their purchases.

Private Labels assumed great importance in certain customer segments, such as low-class, retired or couples with children, who had major financial difficulties (see **Exhibit XXVII**). Furthermore customer segments with the middle classes, and high increased sales of supplier brands such as Nicola due to the high confidence index in the brand (see **Exhibit XXVII**).

²⁹Source: Pordata Website

Conclusion

Nutricafés faced the most critical stage of its history, since Portugal was in a severe economic and financial crisis, and the company lost in sales and earnings compared to other years. The strong pressure from shareholders from the company to maintain internal rate of return, and increase sales, has made the CEO and his management team to perform a marketing strategy to be implemented in the second half of 2012. One possibility would be to increase the teams to attract new customers in the out-of-home channel, the company's main distribution channel, and where it operates since it was founded. The know-how, reputation and conditions offered by the brands of the company indicated that this option would be quite advantageous to quickly retrieve the desired results. However, the company has always been known for its innovation and creativity, including through the brand Nicola cafes. Given that consumers increasingly drink coffee at home, in other Countries and Portugal already appeared some capsules compatible with Nespresso machines, the idea to take advantage of the reputation of Nicola brand among Portuguese consumers to launch compatible capsules with Nespresso machines emerged.

Abecassis had a decisive meeting with the company's shareholders, which definitely would have to decide whether:

- Should invest in the core business of the company, and increase the number of clients such as restaurants, bars and cafes in the out-of-home channel?

- Must innovate and launch capsules Nicola cafés compatible with Nespresso machines?

Exhibits

Exhibit I – Leading superbrands in the Portuguese coffee market

1 Leading superbrands in the Portuguese coffee market

Third largest operator in the Portuguese coffee market with a 22% market share in Lisbon, the richest and most populated region of Portugal and 9% share across Portugal, continuing to increase

Nicola:

- The flagship brand of the Group, Nicola is one of the most prestigious brands in the Portuguese market
- Originated in 1779 in the symbolic Café Nicola of Lisbon, traditionally a meeting place for writers, politicians and artists
- 93% awareness levels amongst consumers

Evolution of Nicola Brand

Source: Data from internal sources within the company

Exhibit II – Nicola sales by channel

Product Portfolio

Brand Portfolio	Product Illustrations	Portfolio Summary	Distribution Channel
<p>235 years of brand tradition</p>		<p>Package Sizes / Formats:</p> <ul style="list-style-type: none"> - 1 kg - 250 g - ESE Pods <p>6 coffee blends 1 blend for pods Total of 67 SKUs</p>	<p>Sales by Channel (2013)</p> <ul style="list-style-type: none"> ■ Out-Of-Home ■ Retail ■ Export

Source: Data from internal sources within the company

Exhibit III – Nicola origins and targets

<p>Nicola</p> <p>Flagship brand of Nutricafés</p> <p>Originated in 1779 in the symbolic Café Nicola of Lisbon, traditionally a meeting place for writers, politicians and artists</p> <p><u>Target:</u> Younger generations; perceived as a modern, attractive, stylish, sensual and innovative brand</p> <p><u>Portfolio:</u> Coffee, tea and chocolate beverages differentiated for each channel</p> <p><u>Flavour:</u> Lightly roasted</p>	<p>Chave D'Ouro</p> <p>Originated in 1916 with over 98 years of brand tradition</p> <p><u>Target:</u> Conservative, traditional clients; focused on values such as tradition, sophistication, and trustworthiness</p> <p><u>Portfolio:</u> Coffee, hot chocolate and teas</p> <p><u>Flavour:</u> More of an international, standard roasted taste (darker roast)</p>
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Source: Data from internal sources within the company

Exhibit IV – Brand range on distribution channels



Source: Nicola Cafés Website

Exhibit V – Out-of-Home Nicola range

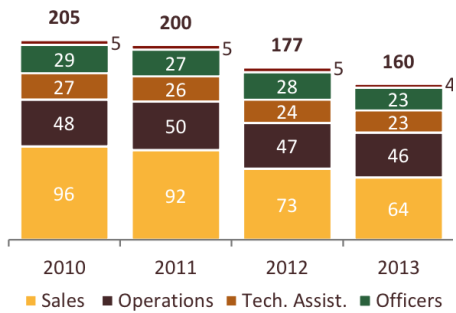
Nicola Horeca – Immediate Consumption/On-Trade

 <p>Premium Coffee Blend A high quality coffee rich in Arabica beans, with distinct acidity and medium but very balanced body.</p> <p>AROMA / AROMA ●●●●○ CREAM / CREME ●●●●○ BALANCE / EQUILIBRIO ●●●●○</p> <p>6</p>	 <p>Chiado Coffee Blend The smoothness, the sweetness and a slight acidity of the best Arabica beans, balanced with a touch of selected Robusta beans.</p> <p>AROMA / AROMA ●●●●○ CREAM / CREME ●●●●○ BALANCE / EQUILIBRIO ●●●●○</p> <p>7</p>	 <p>Especial Coffee Blend The perfect balance between body, intense aroma and smooth flavor, truly for a special coffee</p> <p>AROMA / AROMA ●●●●○ CREAM / CREME ●●●●○ BALANCE / EQUILIBRIO ●●●●○</p> <p>8</p>
 <p>Clássico Coffee Blend Intense aroma and full-bodied flavor make it a favorite among these who prefer a strong notable coffee</p> <p>AROMA / AROMA ●●●●○ CREAM / CREME ●●●●○ BALANCE / EQUILIBRIO ●●●●○</p> <p>8</p>	 <p>Intenso Coffee Blend A unique and strict selection of the best Robusta beans. The result is a full-bodied coffee with persistent cream.</p> <p>AROMA / AROMA ●●●●○ CREAM / CREME ●●●●○ BALANCE / EQUILIBRIO ●●●●○</p> <p>9</p>	 <p>Decaffeinated Coffee Blend Cutting edge technology removes nearly all the caffeine, while preserving the aroma and flavor of a great coffee</p> <p>AROMA / AROMA ●●●●○ CREAM / CREME ●●●●○ BALANCE / EQUILIBRIO ●●●●○</p> <p>5</p>

Source: Data from internal sources within the company

Exhibit VI – Number of employee's evolution

FTE Development in #s



Source: Data from internal sources within the company

Exhibit VII – Nicola Website and Facebook page



Source: Nicola Cafés Facebook page

Exhibit VIII – In store promotions



Source: Nicola Cafés Website

Exhibit IX – Outdoor advertising



Source: Nicola Cafés Facebook page

Exhibit X – Success campaign: Phrase Nicola in sugar packages



Source: Nicola Cafés Facebook page

Exhibit XI – Distribution Channels performance

Channels

Out-Of-Home

- ▶ The dominant channel in the Portuguese coffee market
- ▶ 76,000 POS distributed between restaurants (6%), snack bars (42%) and cafés (52%)

Office Delivery

- ▶ Office delivery is considered a stable channel as most companies offer their employees coffee which creates a continuous demand
- ▶ Greater focus are urban centres

Retail

- ▶ In the retail channel, the volume growth is associated with private label and increase in sales of coffee capsules
- ▶ The channel is split among hypermarkets, supermarkets and small grocers
- ▶ Coffee capsule sales are increasing double digits, 45% in households, worth over 50% of coffee market in value in this channel
- ▶ Supermarkets represent 58% of total volume of Retail sales and 51% of total value Retail sales

Source: Company, Passport by Euromonitor International.

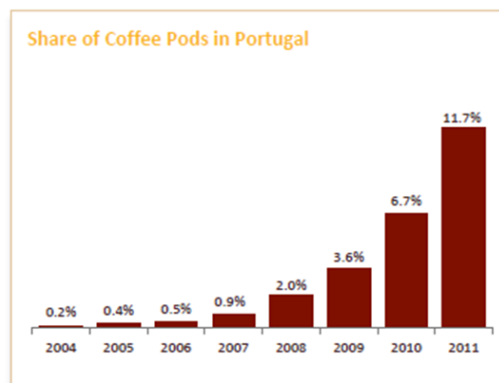
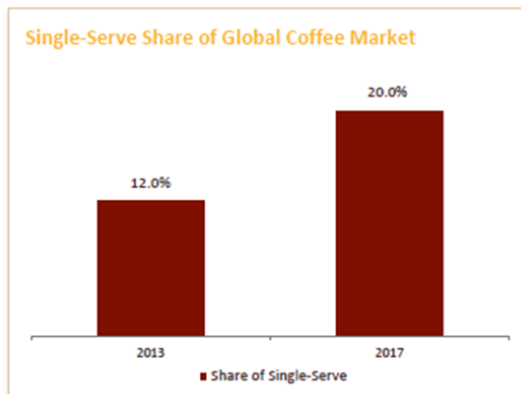
Source: Data from internal sources within the company

Exhibit XII – Portugal Market Shares



Source: Data form internal sources within the company

Exhibit XIII – Evolution of Single-serve Global Coffee Market

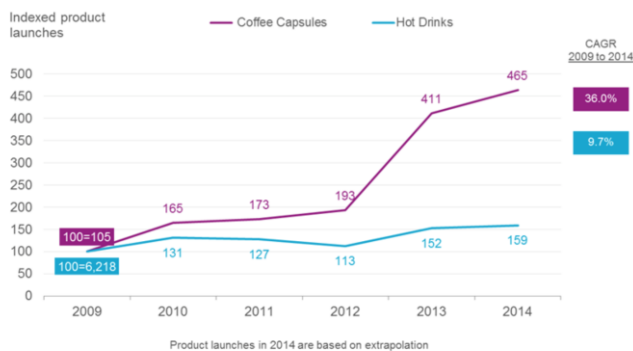


Source: Data form internal sources within the company

Exhibit XIV – Development of coffee capsules launches vs. hot drinks category

Relative development of coffee capsules product launches vs. hot drinks category

- Global tracked launches of coffee capsules have grown at 36% CAGR over the last 5 years. The growth is significantly greater than in the hot drinks category.



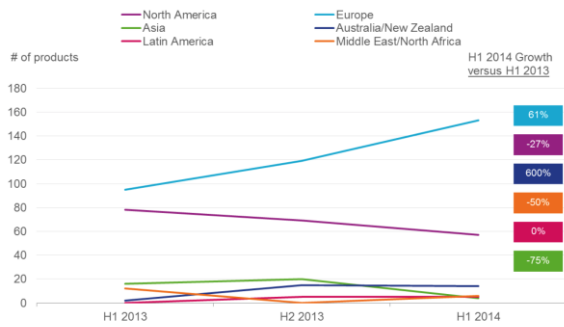
Source: Innova Database product launches tracked



Source: Portugal Foods: Innova Market Insights

Exhibit XV – Coffee capsules launches by region

- Coffee capsules launches, by region
- Europe is the largest market in terms of coffee capsule launches and shows a steady growth trend over the last 3 half years.



9 Source: Innova Database product launches tracked



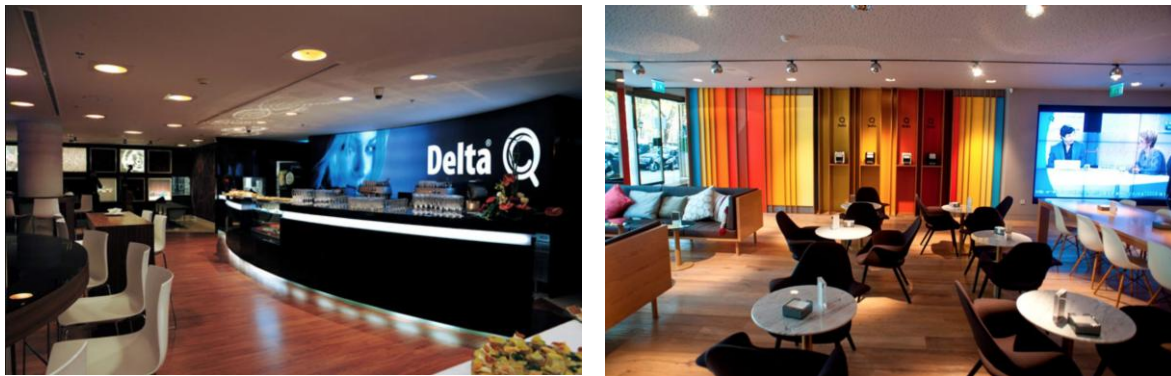
Source: Portugal Foods: Innova Market Insights

Exhibit XVI – Delta Q machines and capsules



Source: Delta Q Website

Exhibit XVII – Delta Q interactive stores



Source: Delta Q Website

Exhibit XVIII – Nespresso Machines and Capsules



Source: Nespresso Webiste



Exhibit XIX – Nespresso Website



Source: Nespresso Webiste



Exhibit XX – Nespresso Global Advertising



Source: Nespresso Webiste



Exhibit XXI – Dolce Gusto coffee Machines and Capsules



Source: Nestlé Webiste

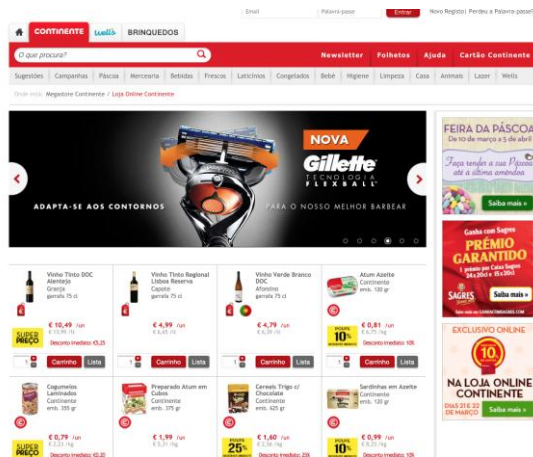


Exhibit XXII – Pingo Doce Capsules Coffee Machines



Source: Pingo Doce Website

Exhibit XXIII – Continente Online store



Source: Continente Online

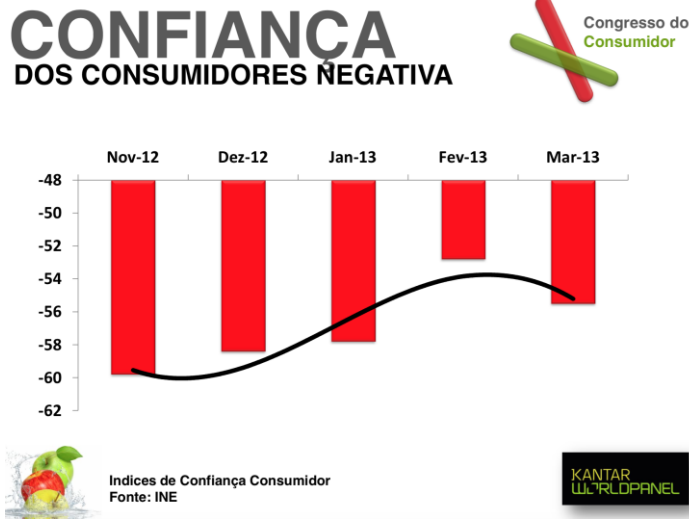


Exhibit XXIV – Continente Compatible Capsules with Nespresso Machines



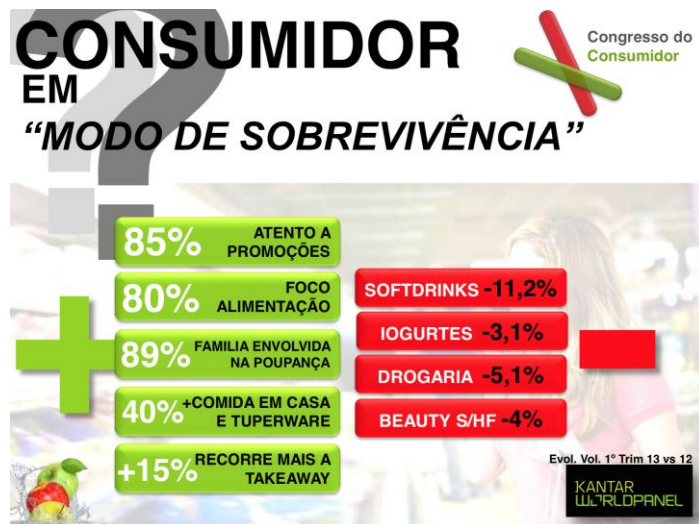
Source: Continente Online

Exhibit XXV – Portuguese Consumer trust index



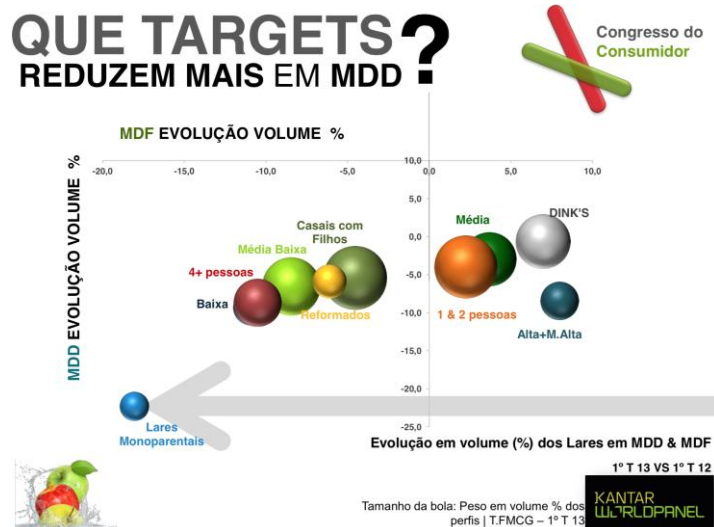
Source: Congresso do Consumidor – Kantar World Panel

Exhibit XXVI– Portuguese Consumer Purchase Fields



Source: Congresso do Consumidor – Kantar World Panel

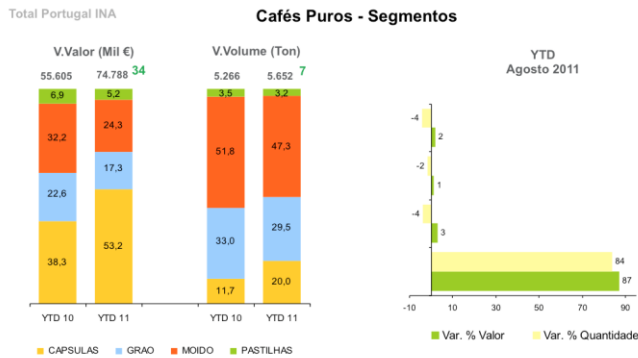
Exhibit XXVII– Growth of Customer Segments in Private Labels



Source: Congresso do Consumidor – Kantar World Panel

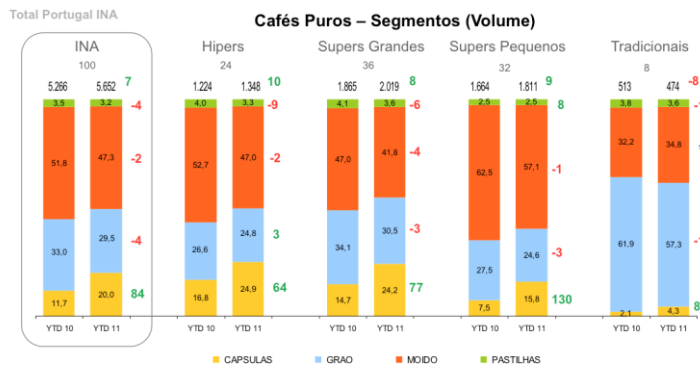
Exhibit XXVIII– Market Research Study: Capsules Growth on Portuguese Market

CAPSULAS mantêm forte crescimento no YTD



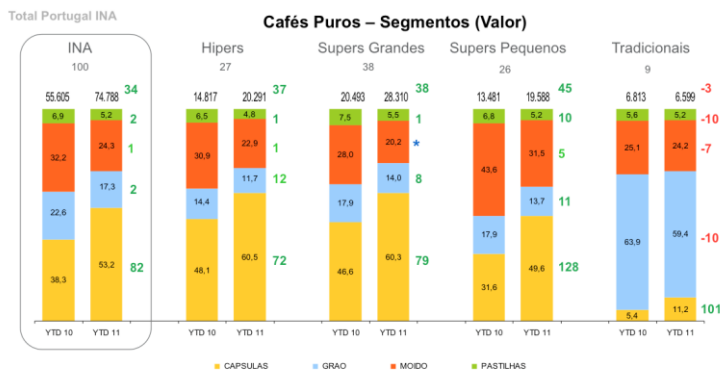
28

CAPSULAS são o motor de crescimento dos Cafés Puros em todos os canais



29

Em Valor, destaque para o crescimento de todos os segmentos nos Hipers e Supers



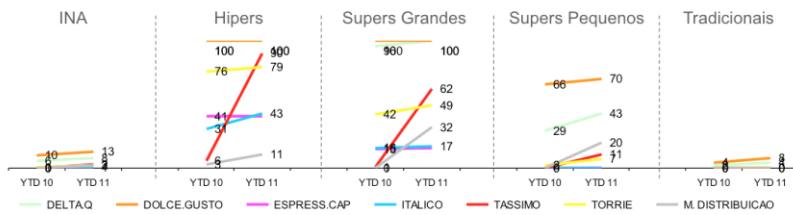
30

Tássimo nos H+S e MDD nos Supers ganharam quota devido ao alargamento distributivo ...

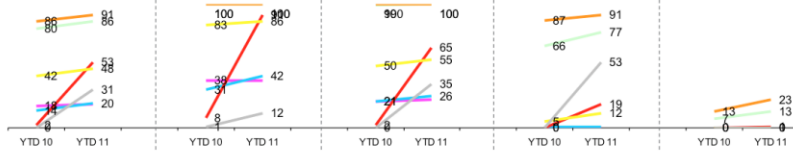
Total Portugal INA

Cafés Puros Cápsulas

Distribuição Numérica



Distribuição Ponderada



36

nielsen

Title of Presentation

Copyright © 2010 The Nielsen Company. Confidential and proprietary.

Source: Nielsen

Exhibit XXIX– Coca-Cola Campaign



Source: Coca-Cola

Exhibit XXX– Table of Investment Values

Option	A – Investing in OOH Channel	B – Launch Compatible Coffee Capsules with Nespresso Machines
	Advantages	Advantages
	<ul style="list-style-type: none"> • Know-how of the business • Continued profitability (60 months) • Dilution of fixed costs of the commercial team 	<ul style="list-style-type: none"> • Market in high growth • High profitability in the short term
	Disadvantages	Disadvantages
	<ul style="list-style-type: none"> • High Investment • Infidelity risk • Uncertain profitability • Strong competition in the distribution channel 	<ul style="list-style-type: none"> • Weak new business knowledge. • Predictable strong competition in new private label brands. • Drop in prices due to promotional activities of retailers (little margins). • Negotiating power of retailers (high concentration)
Payback Period	20 months	14 months
Investment (1year)	<ul style="list-style-type: none"> • 4 comm. employees: €150.000 • Material POS: €100.000 • Exclusivity investment: €150000 • Infrastructures: €200.000 	<ul style="list-style-type: none"> • 2 specialized engineers: €200.000 • Machinery: €800.000
TOTAL	€600.000	€1.000.000
PROFIT	1 year: €250.000 [2-5 years]: €350.000	
TOTAL	€1.650.000	€900.000 (forecast for 1 year)

Source: Data from internal sources within the company

Footnotes

- 1- <http://jpn.up.pt/2011/04/18/economia-100-empresas-fecham-por-dia-em-portugal/>
- 2- Information provided by Nutricafés S.A.
- 3- <http://www.marktest.com/wap/a/n/id~1cb4.aspx>
- 4- http://www.distribuicao hoje.com/ResourcesUser/ICM_IFEDISTRIBUICAOHOJE_STG/Imagens/Mercados/Dossi ers/DH_388_Out10_Dossier.pdf
- 5- Information provided by Nutricafés S.A.
- 6- Information provided by Nutricafés S.A.
- 7- <https://www.nespresso.com/pt/pt/pages/aboutus>
- 8- <http://www.ft.com/intl/cms/s/0/d8c237a4-489c-11e3-8237-00144feabdc0.html?siteedition=intl#axzz3TGroyX8v>
- 9- <http://blogs.wsj.com/corporate-intelligence/2014/04/17/bad-news-for-nespresso-pioneer-of-the-coffee-pod/>
- 10- <http://www.marktest.com/wap/a/n/id~1aaf.aspx>
- 11- <http://www.marktest.com/wap/a/n/id~1aaf.aspx>
- 12- <http://www.delta-cafes.pt/pt/empresa/historia/delta-em-numeros>
- 13- <http://www.delta-cafes.pt/pt/empresa/historia/delta-em-numeros>
- 14- <http://www.delta-cafes.pt/pt/empresa/historia/delta-em-numeros>
- 15- http://www.jornaldenegocios.pt/empresas/detalhe/delta_reivindica_lideranccedila_mercado_nacional_de_caacutept sulas_de_cafeacute.html
- 16- http://www.jornaldenegocios.pt/empresas/detalhe/delta_reivindica_lideranccedila_mercado_nacional_de_caa cutepsulas_de_cafeacute.html
- 17- http://www.jornaldenegocios.pt/empresas/detalhe/delta_reivindica_lideranccedila_mercado_nacional_de_caa cutepsulas_de_cafeacute.html
- 18- http://www.jornaldenegocios.pt/empresas/detalhe/delta_reivindica_lideranccedila_mercado_nacional_de_caa cutepsulas_de_cafeacute.html
- 19- <http://www.marktest.com/wap/a/n/id~1b30.aspx>
- 20- Information provided by Nutricafés S.A.
- 21- Information provided by Nutricafés S.A.
- 22- <https://www.nespresso.com/pt/pt/pages/store-locator>
- 23- <http://economico.sapo.pt/noticias/nprint/137570>
- 24- http://economico.sapo.pt/noticias/marcas-proprias-va-continuar-a-crescer-depois-da-cri se_114572.html
- 25- <http://www.jeronimomartins.pt/negocios/distribuição-alimentar/pingo-doce.aspx?lang=en>
- 26- <http://www.jeronimomartins.pt/negocios/distribuição-alimentar/pingo-doce.aspx?lang=en>
- 27- http://www.dn.pt/Inicio/interior.aspx?content_id=1720479
- 28- <http://www.hipersuper.pt/2011/08/23/sonae-mc-representa-56-do-volume-de-negocios-da-sonae/>
- 29- [http://www.pordata.pt/Portugal/Taxa+de+desemprego+total+e+por+sexo+\(percentagem\)-550](http://www.pordata.pt/Portugal/Taxa+de+desemprego+total+e+por+sexo+(percentagem)-550)

Literature Review

This section of the thesis, aims to add a theoretical approach to the concepts covered throughout the case study. Research has previously made about the concepts, it is essential to support the arguments used, and thus add value for their theoretical and practical component. The literature review will address three topics that will be developed according to the research and data previously analyzed. The topics will be private labels, how to be a follower in the market and communication to ethnocentric consumers.

Private labels

The economic and financial crisis has caused a shift in global consumer buying habits where Portugal was no exception. The strong growth of private labels is explained by the appreciation of the variable price at the time of decision-making. Large retailers that dominate the market, adapted to the new needs of consumers, and have developed private label products where there is little differentiation, like toilet paper, bread and milk. According to Nielsen the private label market is more evolved in developed countries, particularly in Europe, US, and Australia. Portugal is the fifth country in Europe where private labels have more weight to the total sales, with a 33% record. One of the factors that supported this growth was the construction of the value of private labels for consumers, and a closer and more effective communication campaigns with aggressive advertising and media. Jean-Jacques Vandenheede, director of retail industry insight of Nielsen stated, "Commitment to innovation, analytics and marketing strategies are effective for maintaining and growing share."

This trend has increased by more specific categories, such as coffee. According to Nielsen, in 2011 the brand producers increased its market share by 23% in value, while the growth of the share of own brands (and first prices) was up by 9%. This is a trend that derives from the Western European markets, including Spain, France and Germany. In Europe, private label plays an important role in coffee capsules, especially in Germany, where the private labels accounted for over a 45 per cent share of retail volume sales in 2008, as many German consumers remain extremely price conscious (Svend Hollensen 2011). The importance of strong private labels completely changed the traditional consumer paradigm registered so far.

How to be a Follower in the market

The fact that already there is a product that Nutricafés will launch in the market, Nicola coffee capsules, makes the brand to be a follower in this category in the market for coffee in Portugal. Since the product does not change, and it is perfectly internalized by consumers due to high awareness of the pioneers such as Nespresso, the follower's product should be similar which means that there is a high probability to be categorized with the pioneer. (Lee and Milewicz 2014).

The followers can take advantage of the strengths of the existing products on the market and try to improve the weaknesses, thus creating a more adjusted product to consumer needs. The superiority of a certain product can be recognized when a follower's product form is similar to the pioneers one (Zhang and Markman 1998).

Despite being a follower in the market, Nutricafés can explore some key points, which can create a competitive advantage. The company may explore missteps such as the design of the product or package, leveraging the distribution channels and using the network to increase sales in the initial stage of the process (Wunker 2012).

Ethnocentric Consumers

Nicola Cafés is a Portuguese brand, with a strong tradition and culture in the country. During the economic crisis, it would be advantageous to communicate the brand values for consumer's protectors of the country, as ethnocentric ones. Consumers with a stronger regional identity, less cultural openness and within a difficult financial situation have a higher probability to have strong ethnocentric tendencies on their purchasing behavior (Ferrín and Vilela 2013). The same pattern occurred in the wine market in Portugal, where a study concluded, "the involvement of consumers and regional origin are inversely correlated, this last tribute being a diminishing purchasing risk factor. In fact, for consumers with low level of expertise, some wine regions are synonyms of higher quality" (Madureira and Nunes 2013). Ethnocentric consumers perceive ethnic and national symbols and values such as a brand as a source of pride and satisfaction (Erdogan and Uz Kurt 2010).

The Nutricafés has a budget less than other competitors such as Nespresso and the Delta. Thus, the word-of-mouth technique could be an interesting solution to communicate with the Portuguese consumers. The combination of high usefulness and originality lead to higher levels of word-of-mouth (Moldovan, Goldenberg and Chattopadhyay 2011). When customers are involved and perform a Word-of-mouth positive, the result is a successful product, which is on the market (East et al. 2008).

The company could also adopt the concept of e-WOM, through social networks like Facebook or Twitter. The gradual growth of this market, and the regular presence of consumers to discuss various topics, would allow the company to do advertising at a low cost with a high awareness. The digital channels, when storing large databases, facilitate information dissemination process and the credibility of the spoken topics, since consumers tend to rely more on the words of other consumers (Levy and Gvili 2015)

Teaching Note

Introduction

Nicola Cafés Capsules compatible with Nespresso Machines case was prepared in order to be discussed in class and not as a source of primary data, advertising or communication campaign to the brands mentioned. It is intended that the case adds value in the field of management and marketing, on a perspective of learning and cooperation, and so it is not a criticism to the Nutricafés management team. Proprietary data has been disguised, but all essential relationships have been preserved.

This case comes with different types of Exhibits that can be provided to students in order to help in the evaluation and resolution of the problems of the company:

- **Illustrative Nicola Cafés data:** All exhibits containing images or graphics that enable students to understand and have a graphical view of existing products and services in the coffee market. This graphical component is very important to understand the

positioning, targets business and communication campaigns. The data refer to the Nicola products, and their competitors.

- **Quantitative Nicola Cafés data:** All attachments containing numerical information or quantitative, and that should help students to make a mathematical and quantitative reasoning, to sustain more accurately the chosen marketing strategy, and the final suggestions.

In order to the case to be well solved, students should be based on the illustrative data, and also the quantitative so that the chosen marketing strategy is well supported. The strategic component is also very important, since Nicola Coffee is the third market player in Portugal, and to confront the challenges had to adopt an innovation and risk strategy. The success of the decision must be based on the pillars of the strategy, marketing components, and relationship with consumers Nicola brand.

Synopsis

Nutricafés S.A., the third player of the coffee market in Portugal came under pressure in early 2012 due to poor financial results, and the external environment of the economic crisis. Comparing to the last year in the same period, sales fell by 7% which represented a decreased in EBITDA of 6% to €9.7 million. Economic crisis made 35,000 companies closed in Portugal in 2011, and some of them were important clients of Nutricafés.

However, the management team led by João Abecassis, the company's CEO, believed that the company could reverse the situation through Nicola cafés, the brand with best reputation and tradition among Portuguese consumers. The main goal of the case is to present a final decision for the future of Nicola Cafés between two options. The first option of the management team was to extend the range of clients like restaurants, bars and pastries, taking advantage of the network already established and the know how of the commercial team. The second option was to innovate and diversify the product portfolio of the company, and launch coffee capsules compatible with Nespresso Machines taking advantage of high brand awareness and credibility of the brand Nicola Cafés in Portugal. Regarding the case, students can understand some of the fields that a CEO of a company has to think, and his approach to an important crisis within a tradition Industry in Portugal. The case explains all the information needed to present a solution like external environment, marketing-mix, communication strategy, financial situation of the company, global and Portuguese traditional coffee market, capsules market and competitors analysis. Key details including market data are disguised to preserve confidentiality. Despite the fact that the management team had to take a decision between two solutions, they are equally valid and achievable.

Assignment Questions

1. Demonstrate the coffee industry attractiveness in Portugal. It is a market with growth potential? *(15 min)*
2. Illustrate the factors with greatest impact for the Portuguese consumer of coffee. Describe social, cultural, personal and psychological factors. *(10 min)*
3. Explain what are the main strengths and weaknesses of Nicola Cafés, compared with its competitors. What opportunities are there in the market that should be explored? *(10 min)*
4. Suggest a communication campaign for the two options, based on some of the actions already undertaken by Nicola Cafés. *(20 min)*
5. Should the company take the risk, and launch Nicola Cafés compatible capsules with Nespresso Machines? *(15 min)*
6. What should be the marketing-mix strategy for the brand Nicola Cafés to be implemented in Portuguese Coffee Capsules Market? *(20 min)*

Teaching Objectives

1. To have students a clear understanding of the difficulties that Portuguese companies faced during the economic and financial crisis.
2. Engage students in a strategic marketing decision for the company's future.
3. Motivate students to build a marketing-mix plan with potential for success to be implemented in the Portuguese coffee market.
4. Demonstrate to students the importance of a strategic integrated marketing communication strategy has for the company's goals.
5. Provide financial data with the aim of creating a quantitative approach to the company's dilemma.
6. To have students become familiar with brand positioning and market segmentation.
7. Encourage students to innovate and launch new marketing campaigns to solve management problems.

Use of the Case

This case has been developed to confront students with a real problem of marketing management of a Portuguese company. This case should have a strategic approach, and develop marketing concepts such as brand management, segmentation, targeting, positioning, communication strategy and distribution channels. Even though the information provided is simple and clear, some financial data is provided in order to quantify and support the arguments of the final marketing decision of the company.

The case can be used as a tool, or consultation document to build a marketing mix plan for a new product of the company, since it provides data from the company such as communication strategies and financial situation, competitors, market and consumers.

Nicola Cafés Capsules Compatible With Nespresso Machines case can be taught in undergraduate or MBA in courses such as Marketing Management, Brand Management and New Product Development. In order to understand and solve the most important issues of the case, it is advisable that students already have some knowledge of marketing concepts.

Relevant Theory

Throughout the teaching note, several marketing tools were used, so that students can associate the theory to business practice. The following industry analysis and marketing tools were used:

- Porter's 5 Forces Analysis (Industry Rivalry, Bargaining Power of Suppliers, Threat of Substitutes, Bargaining Power of Buyers and Threat of New Entrants): Industry attractiveness
- PEST Analysis: Political, Economical, Social, Technological
- Consumer Behavior: cultural, social, personal and psychological factors (Freud's Theory).
- STP Marketing Model: segmentation, targeting and positioning
- SWOT Analysis (strengths, weaknesses, opportunities and threats)
- Integrated Marketing Communication Strategy
- Marketing Mix 7 P's: product, price, promotion, place, process, people, physical environment
- Product life cycle curve
- Marketing 5C's: customer needs, company skills, competition, collaborators and context

In order to deepen the concepts described above, and in order to introduce theoretical and academic concepts in the answers to the case, it is advisable that students consult the following academic literature:

1. Kotler, Philip. & Keller, K., (2006) *Marketing Management 12e.*, New Jersey, 12th edition, Pearson Education.
2. Bell, Martin. & Vincze, Julian., (1988) *Managerial Marketing.*, New York, Elsevier Publishing.
3. Egan, John., (2008) *Relationship Marketing: Exploring relational strategies in marketing.*, Harlow, Pearson Education.
4. Hollensen, Svend., (2011) *Global Marketing: A Decision-Oriented Approach*, Harlow, Pearson Education.
5. Porter, E., Michael., (2008) *Competitive Strategy: Techniques for Analyzing Industries and Competitors*, New York, Free Press.

Analysis and Discussion

1. Demonstrate the coffee industry attractiveness in Portugal. It is a market with growth potential?

Companies and their suppliers, marketing intermediaries, customers, competitors and publics all operate in a macro environment of forces and trends that shape opportunities and pose threats (Kotler & Keller 2006). Students should start by making a macroeconomic overview to the Portuguese coffee market Industry by using a PEST Analysis. Porter (2008) found that Industry structure has a strong influence in determining the competitive rules of the game as well as the strategies potentially available for the firm. In order to complete the answer will be necessary to make the analysis of the coffee Industry attractiveness using the five forces model of Michael Porter. Finally, students should make a small conclusion on the main forces affecting the Industry.

Macroenvironment Analysis: PEST Analysis

Political

- Portuguese government limited by the IMF adjustment program to the economy.
- 1st year government mandate ensures stability in policies and legislation for the next 3 years.
- Hotels and Restaurants Industry VAT at 23% (up to 10%)
- Launched laws to encourage foreign investment in the country, including privatise large Portuguese companies.
- Government developed innovation and entrepreneurship programs

Economical

- GDP to decline 3% in 2012 due to the severe economic crisis affecting Portugal.
- Exports were the most positive factor of the Portuguese Economy growing by 7.5% compared to 2011.
- Inflation rate of 2.8%
- 35000 companies closed in 2011, some of the restaurants and hotels sector.

Social

- The value of the Portuguese population in 2012 at the risk of extreme poverty was 24.4%.
- Children are at great risk of social exclusion, with a rate of 28.7% in Portugal.
- The unemployment rate in Portugal in 2012 was 15.5%.
- Middle class, and purchasing power to decline significantly, affecting the coffee sector.

Technological

- Company clients turn to cheaper technologies to sell coffee.
- It's extremely important to register patents, technologies and innovations, as copies occur frequently.
- Technological progress allows greater control in the coffee supply chain.

Making an overview of the macroeconomic environment of Portugal, it is possible to conclude that the country was in 2012 under a strong economic, financial and social crisis. This serious situation, made the government to ask for help from the International Monetary Fund, and so was under strict measures of costs and investment control.

The worsening situation made that the unemployment rate rose to 15.7% and thousands of Portuguese companies closed, since consumers have lost much purchasing power. Many of these companies were linked to the coffee sector, such as hotels, restaurants and bars that have lost many customers and could no longer support the daily costs.

However the serious crisis of the country has made the Portuguese government encouraged foreign investment, develop innovation and entrepreneurship programs, and help companies that would contribute to employment in Portugal. The coffee market was no exception, and being a product traditionally appreciated by the Portuguese population was ready to react and develop new ideas.

Industry Attractiveness – Porter 5 Forces Analysis (TN Exhibit 1)

- **Rivalry within the Industry: High**

The Portuguese coffee market is very competitive and there is a large concentration in the three main players in the market, which are Delta Cafés, Nestlé and Nicola Cafés. The supply of products exceeds demand, particularly through pastries, restaurants and bars in the out-of-home channel. If a new business such as a restaurant comes, then there is a fierce competition on the part of the coffee brands to guarantee it.

- **Bargaining Power of Suppliers: Medium**

The large coffee business suppliers are the major producers of the product at the global level, which are concentrated in Brazil and Vietnam. Due to the high concentration, these producers have a big influence in the prices of commodity exchanges in New York, and London. Thus, coffee prices are somehow influenced by the power of the suppliers, although they are defined on the stock exchange.

- **Threats of Substitutes: Low**

Coffee in Portugal can be consumed with two different objectives. It can be consumed to socialize and share moments with others. It can also be consumed to give energy due to high caffeine index. Thus, there are two types of substitute products associated with this industry, and different moments of consumption. In moments of socializing, consumers may choose to drink tea instead of coffee. In order to obtain energy through drink, consumers can choose to buy an energy drink such as Red Bull or Monster. However, both products have a weak tradition in Portugal, compared to coffee.

- **Bargaining Power of Buyers: Medium/High**

Buyers in Portugal are divided into two groups, with different types of power. The first groups are the clients of the distribution channel out-of-home, such as hotels, restaurants and pastry shops. Their power is medium because although they have a low power of negotiation due to their dimension, high competition among coffee companies makes them not respect established contracts, and therefore obtain advantageous terms. The second groups are the large supermarket chains such as Sonae, and Jerónimo Martins that have much influence on sales of coffee companies and so have much bargaining power and large margins on sales. Consumers in general have very little power because they are vulnerable to the prices charged by the supermarket chains and coffee brands.

- **Threat of New Entrants: Low**

The probability of new competitors to enter in the market is very low due to high level of competition, and already established contracts between suppliers and large clients.

After doing an analysis, and combination of the various forces of Porter, students must conclude that the coffee Industry in Portugal has low level of attractiveness. This conclusion is supported by the fact that there is a huge competition and great power of suppliers and buyers. There are very old relationships and established contracts between companies and clients that make it very difficult the entry of new entrants.

2. Illustrate the factors with greatest impact for the Portuguese consumer of coffee. Describe social, cultural, personal and psychological factors.

Consumer behavior is the study of how individuals, groups, and organizations select, buy, use and dispose of goods, services, ideas or experiences to satisfy their needs and wants (Kotler & Keller 2006). Students should make an approach to each consumer behavior factors such as cultural, psychological, personal and social, in order to relate them with the coffee market in Portugal. The theoretical concepts must be related by students with consumer behavior model [TN Exhibit 2], so as to understand how the decision-making process in relation to coffee in Portugal.

- **Social Factors** (Reference groups, family)

Social factors are very important for the consumption of coffee in Portugal, since this product is associated with moments of sharing and relaxation among consumers. The **family** that educates its members to drink coffee, or group of friends that meets in order to share important moments and drinking coffee, are very important **reference groups** for the consumption of the product.

- **Cultural Factors** (Culture and Social classes)

Portugal is one of the World Countries where the **espresso coffee culture** is stronger although the low level of per capita consumption of coffee. Thus, the Portuguese traditions, and habits that are repeated over generations, make the culture be crucial to coffee consumption in Portugal. Any street, neighborhood or small village in Portugal, sells traditional espresso, which is mandatory for the vast majority of Portuguese everyday. Coffee is consumed in all **social classes**, and along the whole life of a person. This coffee culture enabled the development of the capsules market, and rapid adaptation of the Portuguese people, for their daily need of drinking coffee, despite the difficulties that the country is going through.

- **Personal Factors** (Economic Situation, Lifestyle, Personality and Self-Concept)

The **economic situation** of the country, made many Portuguese lose purchasing power, and thus diminish their levels of coffee consumption in points of sale. Students can relate how the **personality** is important in the decision making process of consumers, and how the coffee brands must adapt to different types of customers of personality. Students could address the **self-concept**, since usually consumers make choices according to how they imagine themselves. Concepts such as self-concept, ideal self-concept or others self-concept should be valued in the final answer.

- **Psychological Factors** (Motivation, Perception)

In order to explain the main **motivations** of the decisions of consumers, students can apply the concepts of Herzberg's and Maslow theories.

Frederic Herzberg (1966) developed a two-factor theory that distinguishes dissatisfiers (factors that cause dissatisfaction) from satisfiers (factors that cause satisfaction). The coffee brands by launching products with the features, and attributes that go according to customer needs, and so they include in Satisfiers factors of consumers. A package that has the quality to preserve the coffee, it is easy to carry, is appealing and has a traditional flavor has more probability to be purchased. On the other hand, if a coffee has an unpleasant taste, cannot be re-purchased by the consumer. According to Maslow (1954) "**Perception** is the process by which we select, organize and interpret information inputs to create a meaning full picture of the world". Because of the importance that perception has on marketing, since consumers make their decisions based on their opinions, brands have to adapt, and launch campaigns according to the profile of its consumers. Nespresso uses a more premium concept with gourmet capsules for a higher segment of consumers. Nicola sells a more traditional coffee with Portuguese flavor, and strong links with Portugal. This is the perception that consumers have of both brands, as it is adjusted to its positioning. Students can relate coffee consumption as a need, and relate to the pyramid of Maslow hierarchy of needs [TN Exhibit 3].

For the answer is fully complete, students should refer to the market study, present in the case study **Exhibit XXVIII**, and to demonstrate that in 2010 the capsules already showed an increase in the different types of Retailers. The Portuguese Consumer was developing up and evolving, and the launch of the Delta Q, Dolcegusto, and the presence of Nespresso in Portugal were proof of that.

3. Explain what are the main strengths and weaknesses of Nicola Cafés, compared with its competitors. What opportunities are there in the market that should be explored?

In order to make a well-structured analysis and summary of the internal and external environment of the company, students must build a SWOT analysis. The overall evaluation of a company's strengths, weaknesses, opportunities and threats is called SWOT analysis (Kotler & Keller 2006). This management tool can help students decide what is the best marketing strategy for the future of Nicola brand.

- **Strengths**

Brand with strong Portuguese tradition: Nicola brand was born in 1779 in the emblematic “Nicola Café”, one of the most famous places of the Portuguese capital, Lisbon. The brand is already for many years in the coffee Portuguese market, and is recognized for its experience, prestige and credibility for being so long to consumers.

High know-how of the management team: Due to it being on the market for many years, the management and commercial teams of Nicola have a high level of know-how and experience in the market. They also have a network of contacts that allows them to expand the business in out-of-home channel every year.

Brand Positioning: Despite being an experienced brand, Nicola Cafés, has a young and innovative positioning, as evidenced by their communication campaigns, and presence in social networks. The yellow color reflects the joy, youth and dynamics of a very close brand of Portuguese consumers, and forever young.

Quality and diversity of the product range: With a wide range of products (67 SKUs) the brand is recognized for its quality and diversity of products. This diverse range allows Nicola Cafés meet the needs of different segments of customers at the coffee market in Portugal as restaurants, bars and bakeries, professionals and consumers.

- **Weaknesses**

Regional Brand: Because of its strong ties with Portugal, Nicola brand is rather limited in terms of global awareness, compared with its competitors such as Delta and Nestlé, which have achieved a global projection.

Limited Marketing budget: The communication budget is significantly lower than that of its competitors, so Nicola Cafés communicates primarily through social networks, where costs are much lower, and consumers are present every day.

Slow reaction to market innovations: In the case of coffee capsules, the brand may be follower only, and launch compatible capsules, because lost the timing of innovation and creativity to launch the new product.

- **Opportunities**

Market capsules in growth: Market growth, and consumption, gives the opportunity to new players in the market.

Potential of Nicola Cafés brand: The credibility and quality of the brand, gives good prospects for launching new products.

Export growth: The fastest growing sector in Portugal, in particular for Spain and Italy.

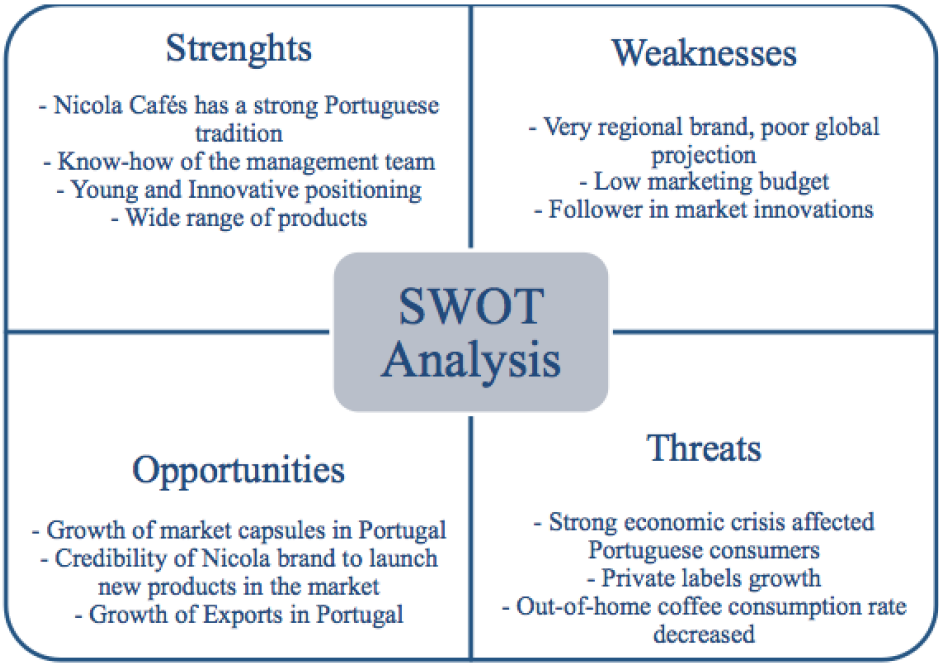
- **Threats**

Economic Crisis: The strong economic crisis caused the closure of 35000 companies in 2011. Consumers have lost purchasing power and stop to do so many meals out from home.

Transfer of consumption into the homes: Due to the crisis, the increase in VAT to 23%, and the growth of the capsules market, the Portuguese consumers drink more coffee at home.

Growth of private labels: The growth of private labels, and the strong power of retailers, meant there was a reduction in the consumption of traditional brands of coffee.

Aggressive competition: The fact that the two major competitors already have their own brands of coffee capsules reduces the Nicola Cafés responsiveness, and customer segments available.



4. Suggest a communication campaign for the two options, based on some of the actions already undertaken by Nicola Cafés.

Modern marketing calls for more than developing a good product, pricing it attractively and making it accessible. Companies must also communicate with their present and potential stakeholders and the general public (Kotler & Keller 2006). Students should develop the concept of Integrated Marketing Communication strategy [TN Exhibit 4], where the company uses various communication tools to persuade, and advertise their products. Suggested campaigns should be based, campaigns already used by Nicola Cafes, including the use of social networks.

Communication tool	A – Invest in Out-of-Home Channel (OOH)	B – Launch compatible capsules with Nespresso Machines
Corporate Communication	<ul style="list-style-type: none"> • Explain to the new elements of the sales team, the importance of acquiring new customers, and the Nicola Cafés culture. 	<ul style="list-style-type: none"> • Implement a culture of innovation and creativity within the company. Internal event explanation of the coffee capsules.
Advertising	<ul style="list-style-type: none"> • Outdoors communicating the importance of OOH clients, in urban areas. • Make a new campaign with Nicola phrases in sugar packets. 	<ul style="list-style-type: none"> • Making a television advert. • Communicating on the radio and outdoor the launch of capsules compatible with Nespresso machines.
Direct Mail	<ul style="list-style-type: none"> • Sending email to the client’s database to communicate the new brand offerings such as merchandising and 	<ul style="list-style-type: none"> • Send e-mail to explain the new product functionality, for intermediates and clients of the

	contracts.	company.
Web/Digital	<ul style="list-style-type: none"> Interview the most traditional and old clients of the brand, and put videos on the site and on Facebook. 	<ul style="list-style-type: none"> Launch a viral video, which was shared on social networks by users and create buzz.
Sales promotions	-	<ul style="list-style-type: none"> Experimentation promotions capsules in supermarkets and small retailers.
Public Relations	<ul style="list-style-type: none"> Nicola Cafés advertising events and actions in public places. 	<ul style="list-style-type: none"> Presence at events, and sponsor form of conferences to demonstrate the Nicola coffee capsules.

Students should conclude that the most important point regardless of the communication strategy followed by Nicola brand is that communication campaign is consistent throughout the different tools used. Create a close relationship with consumers, taking advantage of the tradition and culture of Nicola Cafes in Portugal, will determine the success of the communication campaign. Finally, the campaign should be monitored and evaluated through the brand awareness levels and impact on the company's sales.

5. Should the company take the risk, and launch Nicola Cafés compatible capsules with Nespresso Machines?

Students must solve the dilemma of the company, presenting qualitative and quantitative facts to support the answer. In the **qualitative approach**, it should be noted that the **presence of shareholders** in the company, to press the administration, to increase profitability, could be decisive for a short-term solution. The **severe economic crisis** that has worsened in Portugal in 2012, removed purchasing power to the Portuguese people, and the **consumption of goods grew at home**, with a reduction in visits to restaurants, bars, and small pastries. **The**

competitive pressure from market players such as Nestlé with Nespresso coffee capsules, and Delta, with Delta Q, forced the Nutricafés to enter this market, since the Portuguese consumers were accustomed to a strong brand presence Nicola in related coffee products. Coffee machines, capsules, and the consumption of coffee at home, **were a growing trend** for Portuguese consumers, so a difficult reality to avoid.

Regarding the **quantitative approach**, students should use **Exhibit XXX** referring to the necessary investments in both options.

Option	A – Investing in OOH Channel	B – Launch Compatible Coffee Capsules with Nespresso Machines
Payback Period	20 months	14 months
Investment (1 year)	€600.000	€1.000.000
PROFIT	€1.650.000 (5 years of contract)	€900.000 (forecast for 1 year)

Despite the profitability of investing in the capsules be higher, this is much more unpredictable than investing in out-of-home channel, which is secured by contracts with clients. Although the profitability of investing in the coffee capsules are unpredictable, because it depends on sales, the actions of competitors, and the effectiveness of the company's marketing campaigns, its expected value for the first year is €900,000, whereas in Option A is only €250,000. Despite the investment made to the capsules launch be higher at €400,000, this is quickly recovered by the payback period of only 14 months, which is key to the company's shareholders. The penetration rate of the coffee capsule machines in 2012 into the Portuguese households was 74.2%. It is important that students take into consideration other data present in the market studies in **Exhibit XXVIII**, demonstrating that the capsules are the main coffee growing factor in Portugal in 2011, particularly in large supermarkets, where they grew 9.5%.

In conclusion, both qualitative factors, where consumers have a key role due to their spending habits, such as quantitative factors, with the profitability of the option to launch the Nicola coffee capsules be higher, although unpredictable annually, indicate that Nutricafés should clearly launch this product and enter the market of capsules, in order to become more competitive and adapted to the requirements of coffee market in Portugal. Another of the

decisive factors is the payback period is less, and thus meets the demands of shareholders, who want better results in the short-term period

6. What should be the marketing-mix strategy for the brand Nicola Cafés to be implemented in Portuguese Coffee Capsules Market?

This question aims to stimulate students' creativity, particularly in product component of marketing mix. However, some points should be introduced in the response, so that it gets better structured. Before describing the marketing mix, students should be noted that the Nicola coffee capsules are in the introduction phase in the market of the **product life cycle** [TN Exhibit 5], and therefore the marketing mix components should be consistent, and well organized. Students should indicate the four key components of the **marketing mix, which are product, price, place and promotion**. The best answers will also refer modern components of the marketing mix such as **people, process and physical environment**. The main goal is to reconcile some creativity, with some of the processes already developed by Nicola brand with the consumer Portuguese coffee, and depending on the major competitors such as Delta and Nespresso.

- **Product**

It is mentioned several times throughout the case, that coffee Nicola is traditionally Portuguese, with a strong culture and history linked to Portugal. Thus, the capsules should maintain the traditional taste of coffee Nicola, so that the consumer does not feel the difference. They may be different ranges produced, including decaffeinated and some traditional Portuguese flavors.

- **Price**

As they will be capsules compatible with Nespresso machines, and that Nestlé positions its brand as premium and luxury, the price of Nicola capsules must necessarily be less, low-cost for Portuguese consumers of coffee, going through financial difficulties due to the economic crisis and abdicate of luxury products.

- **Place**

It stated in market research of the case, that the growth of the capsules is higher in large commercial surfaces, such as supermarkets. It is indispensable that the distribution of Nicola coffee capsules is made in large Retailers such as Sonae and Pingo Doce, which are major sales drivers, and where great part of the Portuguese consumers make their purchases. The

ease of purchase of Nicola capsules will be an advantage for the brand since Nespresso only sells its capsules through their website, or exclusive stores, making the complicated purchase for the consumer.

- **Promotion**

Once the product is in the introduction phase in the market, it is very important to promote it. As previously stated in the suggested communication campaign, the sponsorship of events, the dissemination through experimentation, some initial promotions in supermarkets, and intensive advertising on radio and television must be made in the initial phase, so that the consumer has knowledge of Portuguese product.

- **People**

People are the key point and decisive. The brand should target the coffee capsules for the traditional consumer, and at the same time has Nespresso machines at home. The communication must be set for this target, a middle class affected by the crisis, and with strong links to the Portuguese products and brands.

- **Process**

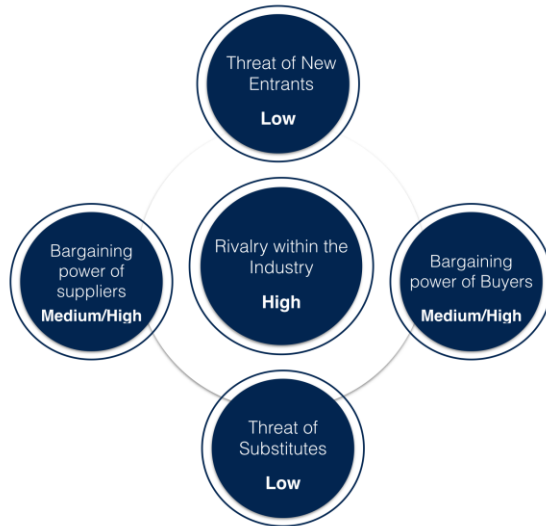
The processes are very important because the product is adapted for a coffee machine, which is not from Nutricafés, and therefore the compatibility must be perfect. The production of coffee capsules has to be quite effective, so that the machines do not have technical problems and thus will not damage the image Nicola. The distribution and management of stocks will have to be quite articulate, so that there are no breaks in retail stocks. The explanation for the use of capsules in coffee machines will also have to be very well made, so that consumers have a positive experience with the product and so do word-of-mouth.

- **Physical Environment**

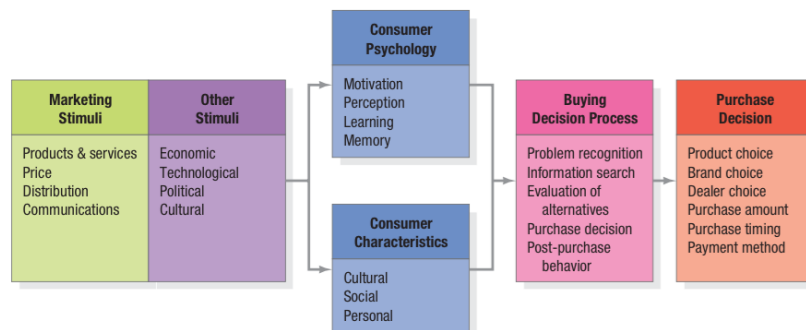
In the case of the physical environment, this will be perfect for Nutricafés, since consumers will consume the coffee capsules in places that are quite accustomed and comfortable as their homes or offices, because it is there that have Coffee Nespresso Machines.

Exhibit Teaching Note

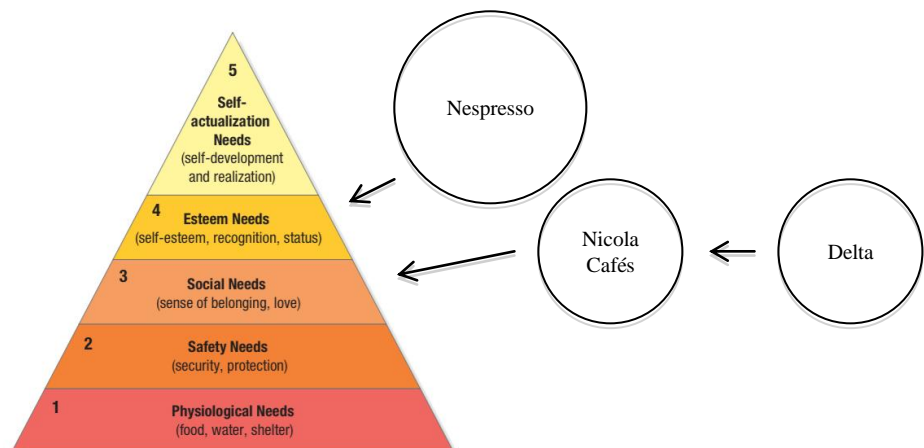
TN Exhibit 1: Porter's 5 Forces Analysis



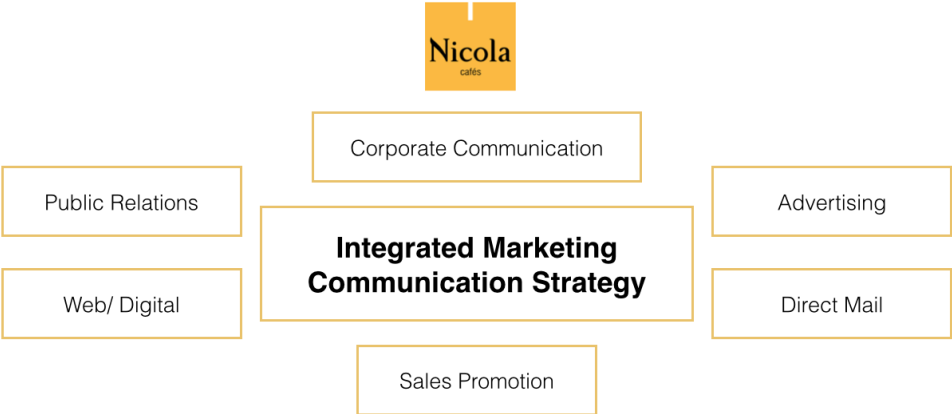
TN Exhibit 2: Consumer Behavior Model



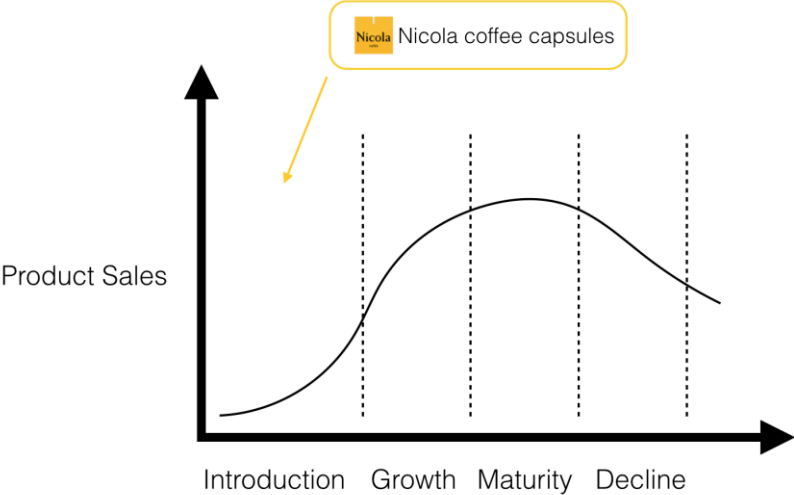
TN Exhibit 3: Maslow Hierarchy of Needs Pyramid



TN Exhibit 4: Integrated Marketing Communication Strategy



TN Exhibit 5: Product Life Cycle



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