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MASTER THESIS

DELTA Q

To Tea or Not To Tea

Marketing Case Study

Matthias Berchtold

Student number: 152111026

Advisors:

Professor João Borges de Assunção

Paulo Alexandre Gonçalves Marcos

Matthias Berchtold wrote this case under the supervision of Professor João Borges de Assunção and Paulo Alexandre Gonçalves Marcos as a dissertation submitted in partial fulfilment of requirements for the degree of IMSc in Business Administration, at the Universidade Católica Portuguesa, June 2013. This case is based on real events.

However the data and history of it are disguised as the main purpose is to illustrate a management decision. Copyright UCP, Matthias Berchtold, Professor João Borges de Assunção and Paulo Alexandre Gonçalves Marcos

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Abstract

Change is a constant progress and companies need to be able to respond quickly to the market and to their customers. This case illustrates that, in spite of a weaker starting position, companies are able to compete with much bigger competitors if they understand this insight.

For that reason, this case demonstrates the importance for a company to align its strategy and its portfolio to changing consumer behaviours and tries to elucidate this to future managers.

This dissertation focuses on the writing of a case study about Delta Cafés, a Portuguese coffee company that has recently experienced problems by the implementation of a new product and was facing strong competition by a multinational giant.

Delta created Delta Q, a closed coffee capsuled system, in 2007 as a response to the new coffee industry trend towards the use of capsules and the huge success of its strongest competitor Nestlé. The managers at Delta Cafés saw themselves as David fighting against Goliath and their battle seemed even more fierce than expected. A year after the launch, Delta Q landed far off the target (16 % instead of 30 % market share), only reaching the third place, just behind the two Nestlé brands. For the management and innovation team of Delta Cafés the main challenge was therefore how to change this situation in order to achieve or to exceed the desired market share of 30 % by the end of 2009.

The case depicts several decisions in the range of brand positioning, distribution channels, switching costs and differentiation the management team around the CEO Nabeiro can undertake in order to (re-)gain its market position.

Keywords: brand positioning; distribution channels; switching costs; differentiation

BUSINESS CASE & TEACHING NOTE

Acknowledgments	i
Abstract.....	ii
List of Exhibits	iv
BUSINESS CASE	1
1. Afternoon Meeting at Delta Cafés	1
a. New ideas	1
b. Decision time.....	2
2. The Portuguese coffee market.....	3
a. Snapshot	3
b. Distribution channels & market trends.....	4
3. Delta Cafés– the company.....	5
a. The core business	5
4. The capsuled coffee market.....	7
a. Change in consumer behaviour	7
b. Customer Preferences	7
c. Nespresso.....	8
d. Dolce Gusto	10
e. Delta Q.....	11
f. Pricing.....	12
5. Market Innovations	13
a. Red Espresso	13
b. Capsuled Teas with Tetley	14
6. Appendix	16
7. Bibliography.....	24
TEACHING NOTE.....	27
1. Synopsis	27
2. Teaching Objectives.....	28
3. Use of the case.....	28
4. Class plan – Assignment questions	28
5. Analysis.....	29
6. What happened?	42

List of Exhibits

Figure 1 - Total ground coffee - Variation of annual market share in value.....	16
Figure 2 - "Home" ground coffee consumption – annual market share variation.....	16
Figure 3 - per capita consumption in kg.....	17
Figure 4 - Structure of consumption in <i>K</i> bags.....	17
Figure 5 - Consumption of coffee pods.....	17
Figure 6 - Location of coffee consumption.....	19
Figure 7 - Organogram of Delta Cafés.....	19
Figure 8 - Nespresso Range.....	20
Figure 9 - Dolce Gusto Range Portugal.....	21
Figure 10 - Delta Q portfolio 2007.....	21
Figure 11 - Delta Q Distribution Channels.....	22
Figure 12 - Red Espresso.....	23

BUSINESS CASE

1. Afternoon Meeting at Delta Cafés

As the days passed by, the team around Manuel Nabeiro, the CEO of Delta Cafés knew they need to come to a decision – the sooner the better.

Over a year ago, Delta Q, the closed capsuled coffee system, had been launched to answer the changes in consumer behaviour and to regain market share in the hard-fought Portuguese coffee market. However, Delta, the David against the Goliath Nestlé, landed far off the target and was currently holding only a 16 % market share in comparison to the 30 % estimated. (Figure 1 - Total ground coffee - Variation of annual market share in value)

Moreover, the heavy decline in the “home ground coffee consumption” of Delta was unstoppable and Nabeiro’s company had lost, according to an AC Nielson study, a considerable large market share. (Figure 2 - "Home" ground coffee consumption – annual market share)

Nabeiro understood that Delta with its Delta Q had to act quickly and tap the fast growing capsuled coffee market much better than they did in the past. For every party at this meeting it was clear that Delta had to jump much faster and better on the bandwagon - capsuled coffee... But how?

a. New ideas

British business consultants approached Delta’s innovation centre a couple of months ago with an interesting new product from South Africa – Red Espresso; a mixture between tea and coffee that combined the healthy benefits of tea with the drinking sensation of fresh brewed espresso. Was this what Delta looked for?

The innovation centre of Delta thought also about another idea. In 2006 Delta became the exclusive distributor of Tetley teas in Portugal. Tetley was one of the biggest companies in the global tea market and a well-known player in Portugal with a

significant market share of over 20 %. Would it make sense (and was it possible) to produce capsuled tea from Tetley?

b. Decision time

At the meeting it was agreed that Delta had two basic alternatives for the future strategy of Delta Q:

1. Enter into a partnership with Red Espresso and create and launch Red Espresso as part of the Delta Q capsuled coffee range
2. Deepen the venture with Tetley, benefiting from their experience in the tea industry and offer capsuled tea together with Delta Q

Whichever alternative was chosen, Delta had to consider every pros and cons and the potential impact on future sales of Delta Cafés and they had to act fast as time was money.

2. The Portuguese coffee market

a. Snapshot

Coffee is deeply rooted in the Portuguese culture. Dating back from the 18th century, coffee has constantly played an important part of the Portuguese way of living and was always more than just drinking coffee. For Portuguese the prime consumption place to enjoy coffee is a café. It is a social act of being together, meeting friends, have a talk with strangers or reading the newspaper.

According to the International Coffee Organization (ICO) more than 2 billion cups of coffee are drunk every day. Coffee is therefore the world's most widely traded tropical agricultural commodity, accounting for exports worth estimated US\$ 15.4 billion in 2009/10, when some 93.4 million bags were shipped.¹

The total coffee consumption per capita increased according to the International Coffee Council (ICC) from 3.7 kg in 2008 to over 4.7 kg in 2011.(

Figure 3 - per capita consumption in kg)

The Industrial and Commercial Coffee Association (AICC) estimates that therefore each Portuguese consumes 2.2 daily espressos.²

Portuguese consume annually around 700,000 bags of coffee. Consumption of roasted coffee accounted for 85.3% of total national consumption compared with 14.7% for soluble coffee. However, the share of roasted coffee in total consumption dropped from 89.3% in 1997 to 82.6% in 2011. In the meantime, the share of coffee pods is increasing rapidly, having risen from 0.2% in 2004 to 11.7% in 2011.³ (Source International Coffee Council, Figure 4 – Structure of consumption in *k* bags, Figure 5)

¹ (International Coffee Organization, 2012)

² (International Coffee Council, 2012)

³ (International Coffee Council, 2012)

b. Distribution channels & market trends

For Portuguese the prime consumption place to enjoy coffee is a café. Therefore, out-of-home coffee consumption is according to the International Coffee Council the dominant form, accounting for 420,000 bags (60.3%) of national consumption compared with 276,000 bags (39.7%) for at-home consumption. Portugal is thus one of the few coffee-importing countries in which coffee is more commonly enjoyed outside the home. However, the dominance of out-of-home consumption has dropped, falling from 64.7% in 1997 to 53.1% in 2011. Most out-of-home consumption occurs in independent outlets (57.7% of the total), while the share of (café) chains has increased from 0.8% in 1997 to 3.7% in 2011. Additionally, the share of non-grocery outlets is growing, although nearly all coffee consumed at home is purchased in shops.⁴ (Figure 6 – location of coffee consumption)

Important players in the coffee market are top brands such as Delta Cafés and Nestlé, nevertheless other brands like Nicola, Segafredo, Lavazza, and Torrié, among others, play a significant role.

⁴ (International Coffee Council, 2012)

3. Delta Cafés– the company

a. The core business

Delta Cafés, founded in 1961 by Rui Nabeiro is a company that specialises in coffee roasting, processing and packaging. It is one of the most recognised brands in Portugal and was voted by journalists of the newspapers “Jornal de Notícias” and “Diário de Notícias” on place 165 of 1000 reasons to be proud of Portugal⁵.

Soon after the beginnings of Delta Cafés in a small warehouse in the Alentejo town of Campo Maior the company grow rapidly and consequently the commercial structures were consolidated in 1984. Commercial activities were from now on handled by the company, Manuel Rui Azinhais Nabeiro Ltd., while the industrial activities were carried out by Novadelta S.A., the first company certified in this sector in 1994 by the NP 29002 standards system.⁶

Following this "single brand" strategy, the Nabeiro/Delta coffee group was restructured and different types of divisions were created, segmented by business, technology and communication units. At the end of this process 22 different independent companies were shaped, organised by strategic areas to reinforce the main activities of Delta Cafés.⁷ (Figure 7 - Organogram of Delta Cafés)

Delta Cafés proved with a market share of 48 % in 2010, to be a successful brand in Portuguese market. However, this success did not happen immediately. According to Miguel Pimenta, a manager at Delta, the key factor for Delta’s success was its denomination as “*the people’s coffee*”. Availability and proximity to the client was crucial to become the “*must have*” brand at home and nowadays Delta is available in 98 % of the Portuguese territory.⁸⁹

But also outside the Portuguese territory Delta Cafés expanded its business. Its internationalisation strategy began by entering into Spain in 1988, focussing on

⁵ (Diário de Notícias and Jornal de Notícias, 2011)

⁶ (Delta Café, 2013)

⁷ (Delta Café, 2013)

⁸ (European Business Award, 2011)

⁹ (Delgado, 2010)

restaurants and cafés across the Portuguese border. 20 years later Delta is the seventh biggest player in the Spanish coffee market and contributes to 22 % of Delta's total revenue.^{10 11}

However, Spain is not the only international market, for Delta which is currently present in over 35 countries spread across all five continents, with special focus and direct presence not only in Spain but also in France, Luxembourg, Angola and Brazil. Rui Miguel Nabeiro, managing director of Delta was therefore confident “*to improve our share of turnover from international markets from the current 25% to a 35% share*”.¹²

¹⁰ (BCSD - conselho empresarial para o desenvolvimento sustentável, 2011)

¹¹ (Lebre, 2011)

¹² (Delta Café, 2013)

4. The capsuled coffee market

a. Change in consumer behaviour

Portuguese coffee culture started to change around 2005 when more and more Portuguese transferred their coffee consumption from cafés, bars and hotels to their own homes. By 2006 the value of individual doses of coffee grew already by 104 %, representing 8 % of the market (in comparison to 2005). According to an AC Nielsen study, the capsuled coffee sector represented already 11 % of the total market in 2008, driving sales of capsuled coffee machines by 36 % with estimated growth of 300 % in 2009. In fact, machine sales of closed capsuled systems represented 64 % of all coffee machines sold in 2008.¹³

Therefore, in order to stay competitive the players of the Portuguese market had to adapt to this new conditions.

b. Customer Preferences

Customers determine the market. Customers make the final choices and therefore it is as crucial as important to understand the consumers' preferences in order to make the right strategic choices.

Delta had many insights on their customers and conducted in-depth market analysis as especially in the areas brand image, price elasticity and quality perception. According to Grupo Consultores barometer brandscore Delta's customers were on average 48 years old and 55 % of all Delta consumers were not willing to buy a substitute of Delta for anything else (level of loyalty). Additionally, two factors ranked very high in terms of purchase criteria: 58 % favour taste and brand image as the two most significant aspects for buying Delta. The brand barometer also showed that typically the origin of coffee is not a purchase criterion, however, for Delta customers is very important. Nevertheless, the taste of the coffee was the main decision factor.¹⁴¹⁵

¹³ (AC Nielsen , 2009)

¹⁴ (Delgado, 2010)

¹⁵ (Lebre, 2011)

c. Nespresso

Nespresso was owned by Nestlé, a giant in the food industry. With worldwide sales of 76 billion Euros in 2008 Nestlé was the largest food company in the world and also a major market player in Portugal with market sales of over 570 million euros and an annual growth rate of 7.4 %. Through the acquisition of Sical¹⁶ in 1987, Nestlé had a solid stronghold in the Portuguese coffee market and could rely, in combination with its own market power, on decades-long experience in the coffee business.

Nestlé, the owner of Nespresso, patent a capsuled coffee system in 1996 and held since then a quasi “monopoly” in this specific market segment. The Nespresso system brewed espresso from coffee capsules, a type of pre-apportioned single-use container of ground coffee and flavourings. Nespresso offered 16 different coffee "Grand Cru" arabica and robusta. Two “Limited Edition Grand Crus” are released every year as well as a new set of “Variations”, flavoured espresso capsules.¹⁷¹⁸ (Figure 8 - Nespresso Range)

Nespresso had become a huge success for Nestlé and annual sales of 2.7 billion CHF were reached in 2009 with growth rates above 30 % over the past 10 years.¹⁹

In fact the “Nespresso revolution” of a capsuled coffee system had changed the whole sector and became one of the fastest growing segments of the entire coffee market, accounting for 20 – 40 % of the total value of ground coffee sales (USD 17 billion) in the European coffee market.²⁰

However, the success of Nespresso was not merely based on the new way of packing coffee but also on three important factors:

- the business model
- marketing
- distribution

¹⁶ Sical (Sociedade Importadora de Cafés Lda.) founded in 1947 by Vicente Peres was a strong player in the Portuguese coffee market. In 2008, the portfolio of the brand included nine products for home consumption and four for out-of-home

¹⁷ (Delgado, 2010)

¹⁸ (Nespresso Wikipedia, 2013)

¹⁹ (Nestlé - Annual Report, 2009)

²⁰ (Nespresso Wikipedia, 2013)

The business model of Nespresso was based on the trinity of capsules, services and machines. Similar to printer manufacturers, Nespresso capsules only worked with the fitting Nespresso machines, creating a “lock-in-effect”. Nespresso bound therefore the customers and owners of the Nespresso machines to the Nespresso coffee pads, making thus its consumers dependent on the pricing policy of the coffee pad provider.

Another key factor of Nespresso was its distribution strategy. Emphasizing its premium brand identity, Nespresso had its products only available in its own boutiques, by telephone hotline or via the internet. In 2008 were over eighty boutiques worldwide, three of them located in Portugal; two in Lisbon, one in Porto. However, Nestlé planned to open two more boutiques in the coming year in Lisbon and according to Vincent Termote, Iberian General Director for Nespresso, *“We are currently studying the possibility of expanding Nespresso to other cities in Portugal. We need to respond to the requirements of consumers who like going to our stores; this is an important way for them to come into contact with the world of Nespresso. That is why we are looking at other areas.”*²¹

Nevertheless, the Nespresso brand was already very strong in the Portuguese market since its market entry in 2003 and despites its relatively small market size of ten million people, Portugal was among the top 10 countries in terms of revenue and achieved annual growth rates between 100 – 150 %.

Additionally, Nespresso could rely on another key success factor – its marketing - namely George Clooney who became the brand ambassador, associated with lifestyle and quality. As a matter of fact, the advertisement with Clooney became so popular that the actor was now more known for the Nespresso campaigns than his movies.

Joachim Richter, the director of Corporate Communications of Nespresso outlined the concept of Nespresso the following:

“Nespresso is not just a coffee; it is a trilogy of perfectly portioned, highest quality Grand Cru coffee, smart and easy to use machines and the Nespresso Club, with personalized services. It is a unique business model which works to ensure a premium

²¹ (Cushman & Wakefield, 2010)

experience for customers in all their interactions with Nespresso: from being exposed to the product through advertising, to buying Nespresso products, to making a cup of coffee and, of course, to finally drinking it.”²²²³²⁴

d. Dolce Gusto

In the end of 2006 Nestlé entered with yet another brand in the Portuguese coffee market – Dolce Gusto. The leading motivation was according to the managing director of Nestlé Portugal, António Saraiva de Refóios:²⁵

“Since this is a segment with great potential, it is preferable for Dolce Gusto to occupy the space that could belong to Nespresso than to see it filled by competitors.”²⁶

As a result of the market entry of Dolce Gusto, Nespresso lost its unique selling proposition in the Portuguese capsuled coffee market and had to share the growing market with an “in-house” competitor. After the first year of the launch Dolce Gusto reached a 15 % market share and sold more than 715,000 capsules.

Nevertheless, the differences between those two coffee systems were significant: Dolce Gusto offered a vast array of 24 different blends and beverages; ranging from simple espresso to chococino and latte macchiato. (latte macchiato, cappuccino, etc. used an extra capsule for the milk part of the beverage) The brand also offered ice teas (Nestea) and tea-mix-beverages (chai tea latte).

Dolce Gusto was therefore according to Nestlé own description “*a multi-drink system with high-quality (...) It is a simple, practical and clean way to drink coffee*”. (Figure 9 - Dolce Gusto Range Portugal)

Additionally to the differences between Nespresso and Dolce Gusto in the coffee system, the distribution channels varied too. Nespresso, as mentioned above, was a premium product only available in boutiques and via the internet. Dolce Gusto had a

²² (Schafer & Pappers, 2009)

²³ (Delgado, 2010)

²⁴ (Lebre, 2011)

²⁵ (Distribuição Hoje, 2007)

²⁶ (Distribuição Hoje, 2007)

different approach and distributed its capsules and machines through various channels including electrical appliance store, hyper- and supermarkets, through online sales and via telephone hotlines.

e. Delta Q

Responding to changes in consumer behaviour Delta Cafés launched its own capsuled coffee system in 2007 – Delta Q. However, 2 years before that Delta already experienced with a capsuled coffee system primarily in offices. Nevertheless this system was different to Delta Q and was not continued.

Delta Q was a system that offered seven different types of coffee capsules in various flavours and roasting degrees, all containing the letter “Q” to associate with its roof brand Delta Q. (Qualidus, Qharacter, aQtivius, Qonvictus, Qonvivium, deliQatus and deQafeinatus) (Figure 10 - Delta Q portfolio 2007)

Although Delta Q was designed as a new product in the capsuled coffee sector, the similarities to its competitors from Nestlé were inevitable. However, according to Miguel Nabeiro, several distinctive differences characterized Delta Q to its other market players.

To begin with, Delta Cafés was a Portuguese brand, well established over decades in Portugal and the market leader with 48 % market share. Delta Cafés knew its customers better than anybody else in the market and had already built a strong relationship with its consumers. Consequently, the name Delta Q became quickly associated with its mother company and according to Pimenta created the “Delta factor” – *“the name Delta, the recognition of the coffee quality and the work developed since 1961”*.²⁷

Delta Q followed a *“democratization of distribution”* strategy and opened their distribution channels to widen the availability of the product. In comparison to Nespresso’s boutique, Delta Q was sold in various distribution channels including hyper- and supermarkets as well as discount supermarket chains, the internet and the brand own boutiques. Regardless of some disadvantages resulting from Delta’s

²⁷ (Delgado, 2010)

objective to promote and sell Delta Q “everywhere”, the company followed a multiple channel strategy. The drawbacks of this plan were the loss of control and the costs involved in storing the products in the preferred places in the shops. Due to the lack of space in most convenience stores, coffee machines were sold in home appliance shops like Worten, Rádio Popular, Box and El Corte Inglés. Additionally to on-premise points of sale, Delta Q capsules and machines were sold over the internet. According to Nabeiro, Delta needed to create a “buzz” and opened therefore in the end of 2008 the first Delta Q boutique in Lisbon (Atrium Saldanha) as a flagship store to spread the Delta Q concept and coffee culture. (Figure 11 - Delta Q Distribution Channels)²⁸

f. Pricing

	Nespresso	Dolce Gusto	Delta Q
Price			
Unit	10 capsules á 3,2 €	16 capsules á 4,49 €	10 capsules 2,90 €
Capsules	0,32 €	0,28 €	0,29 €
Machines	49,99 € - 1.615 €	149,99 € - 199,00 €	49,00 € - 495,77 €
Variety			
Capsules	16	7	7
Machines	6	2	4

Source: (Delgado, 2010)

²⁸ (Lebre, 2011)

5. Market Innovations

For Delta innovation was always a crucial part of the company and 10 % of the group's earnings were reinvested in R&D.²⁹ Therefore it was only logic that soon after the launch of Delta Q research was made to broaden the existing portfolio. Marco Miranda, an innovation manager and his colleagues at the Grupo Nabeiro Innovation Centre were put in charge to come up with new creations for Delta Q.

a. Red Espresso

A South African company started in 2005 to experiment with a typical product from that area – rooibos tea. Rooibos is a plant that only grows in a small area in the region of the Western Cape province of South Africa. After fermentation the leaves are used to make a tisane called Rooibos (meaning Red Bush) tea. Carl Pretorius, the founder of Red Espresso and a passionate coffee drinker, created the idea of Red Espresso to make a healthier alternative for espresso without giving up on the espresso style, ritual and intensity of taste that he loved. Or to put it into his words: “... *a cup of tea didn't cut it – and decaf wasn't an option.*” The idea of Red Espresso was born:

The alternative to “normal” espresso was made out of 100 % ground rooibos tea, ready to use in an espresso machine with no caffeine but up to 5 times more anti-oxidants than green tea. (Figure 12 - Red Espresso) It had the typical espresso crema and tasted much richer as usual tea.³⁰ The product became a huge success and was patent in 2006.³¹

For the innovation crew around Marco Miranda several obstacles had to be overcome to make Red Espresso a part of the Delta Q portfolio.

- Adaptation of tea for capsuled coffee systems
- Adaptation of Delta Q machines for Red Espresso (water, heat, pressure,...)
- Scientific prove for Red Espresso health claims
- Accurate labelling

²⁹ (European Business Award, 2011)

³⁰ Crema is referred to as the thick, golden-brown foam that forms on properly brewed espresso. The crema is composed of oils, proteins and sugars, carbon dioxide and reflects a large proportion of the espresso flavor.

³¹ (Pretorius, 2006)

Miranda estimated the time to make an agreement with the South African company, to research and develop production and packaging as well as the scientific work would take around 6 months to 1 year. However, that time frame did not include the creation of a detailed marketing plan, concept testing with blind tasting and focus groups as well as a comprehensive communication and promotion strategy for the final launch of the product. Miranda was sure that from the initial meeting, with the founders of Red Espresso to the introduction of Red Espresso inside the Delta Q portfolio, at least 2 years will have to pass and considerable investment had to be made.

b. Capsuled Teas with Tetley

However, Miranda thought about another option to expand the range of Delta Q capsules. Since 2006 Delta had been the exclusive distributor for Tetley in Portugal and maybe this was a new approach to combine the strengths of the tea market with the market power of coffee.

In Portugal coffee consumption is long-standing cultural tradition and so tea represents only a small portion of total hot drinks consumption. Nonetheless, the importance of a healthy lifestyle has boosted a wellness trend that also gradually increased tea sales with an annual growth rate of over 6 %. Many Portuguese opt for tea as it is perceived not just healthy but fashionable too.

The tea market was much like the Portuguese coffee market very competitive. Unilever Jerónimo Martins Lda held a leading position with nearly 37 % market share. Its main brands were Rotulo Azul and the ice tea Lipton. As a matter of fact, Lipton was so successful that it held a 68 % market share in the battled Portuguese iced tea market.³²

The number two in the tea market was Tetley. Tetley was the world's second largest manufacturer and distributor of tea. Owned by India's Tata Global Beverage Group, Tetley was manufacturing and distributing business across 40 countries and sold over

³² (Euromonitor , 2012)

60 branded tea bags; in Portugal Tetley held a 21 % market share of the hot tea retail market.³³³⁴

Miranda saw a co-branded tea venture a suitable way to diversify both Tetley and Delta's portfolio and offering products that differentiate from competitors that currently do not offer tea in this 'pod' format. Nevertheless, the innovation team would have to overcome similar obstacles for a successful market launch to those of the Red Espresso strategy:

- Formation of a co-venture between Tetley and Delta Cafés (including an agreement for Tetley to supply the raw materials and knowledge for Delta to manufacture the pods)
- Adaptation of tea for capsuled coffee systems
- Adaptation of Delta Q machines for Tea (water, heat, pressure,...)
- Concept testing (including tastes, styles,...)
- Detailed marketing plan

Yet, this plan was for both sides an interesting option and Peter Haigh, commercial manager at Tetley stated:

*“Delta Q would be a pioneering project for us. It would be the first time that Tetley transfers our tea expertise and heritage to the capsule system in an effort to connect with consumers and respond to their needs and habits.”*³⁵

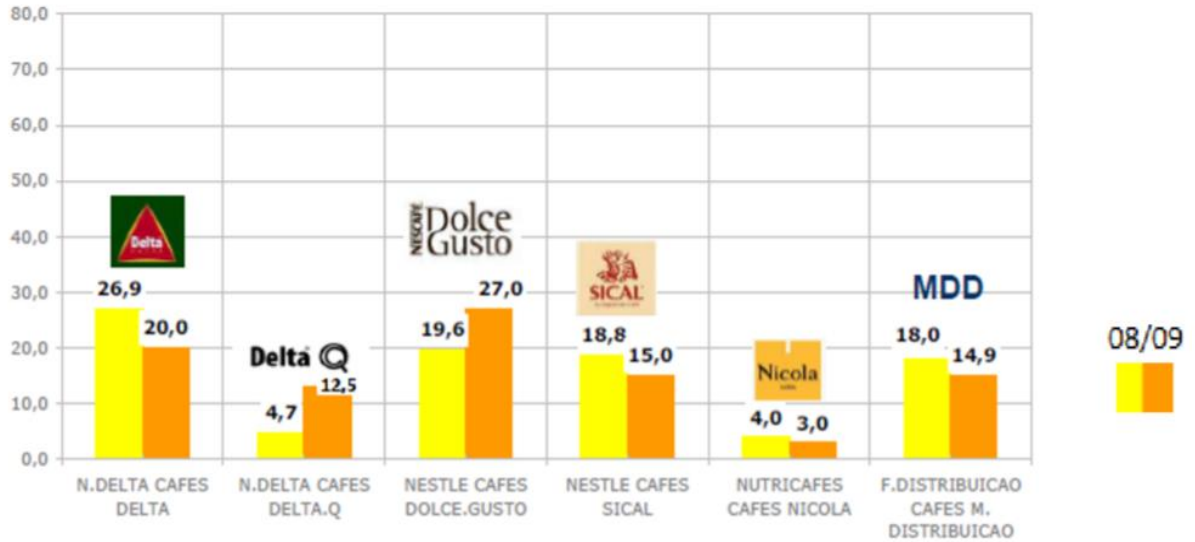
³³ (4-traders.com, 2011)

³⁴ (Wikipedia, 2013)

³⁵ (4-traders.com, 2011)

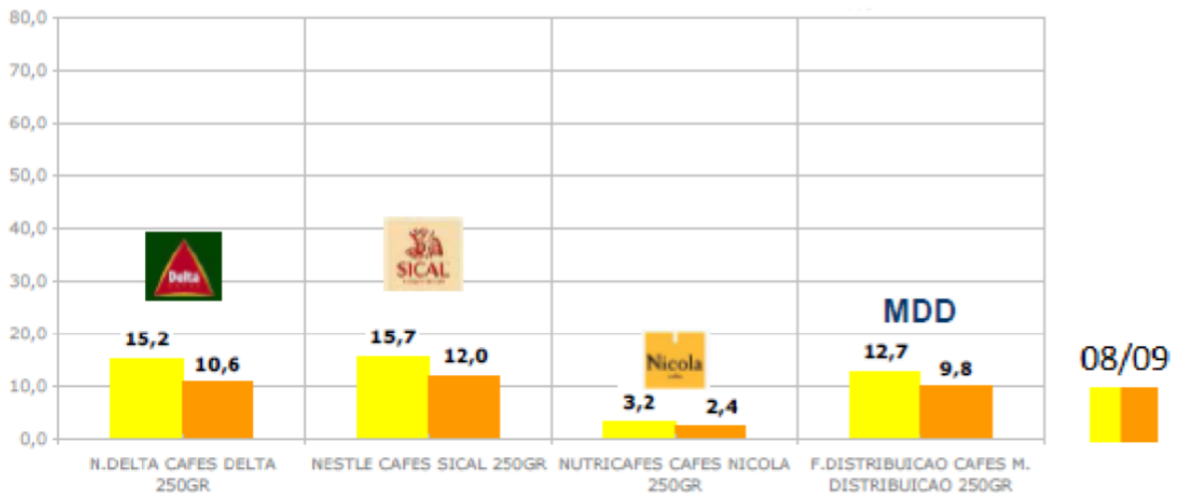
6. Appendix

Figure 1 - Total ground coffee - Variation of annual market share in value



Source: (AC Nielsen , 2009)

Figure 2 - "Home" ground coffee consumption – annual market share variation



Source: (AC Nielsen , 2009)

Figure 3 - per capita consumption in kg

PER CAPITA CONSUMPTION IN SELECTED IMPORTING COUNTRIES

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	Average
Austria	8.2	8.3	8.4	6.6	7.6	6.9	5.3	7.3	5.6	4.4	6.1	6.5	6.4	6.5	8.0	6.8
Belgium	5.2	7.7	4.9	6.7	5.2	8.7	9.2	8.1	6.7	8.8	6.3	3.7	5.3	4.9	5.2	6.4
Denmark	9.2	9.7	9.8	8.9	9.7	9.0	8.1	9.4	8.8	9.1	8.7	7.6	7.4	9.3	8.7	8.9
Finland	11.0	11.7	11.4	11.2	11.0	11.2	11.1	11.9	12.6	11.9	12.0	12.6	11.9	12.1	12.3	11.7
France	5.6	5.5	5.7	5.5	5.3	5.5	5.4	4.9	4.7	5.2	5.5	5.0	5.5	5.5	5.7	5.4
Germany	7.1	7.3	7.1	6.4	6.6	6.2	6.9	7.6	6.3	6.7	6.3	7.0	6.5	6.8	6.9	6.8
Greece	4.1	3.7	3.5	3.8	3.0	4.5	5.1	4.7	4.7	4.6	5.5	5.3	5.2	5.3	5.5	4.6
Italy	5.2	5.2	5.2	5.4	5.5	5.4	5.7	5.6	5.7	5.7	5.9	5.9	5.8	5.8	5.7	5.6
Japan	2.8	2.9	3.0	3.1	3.3	3.2	3.2	3.4	3.4	3.4	3.4	3.3	3.4	3.4	3.3	3.2
Netherlands	9.1	7.5	5.6	7.0	6.3	5.9	6.5	7.3	7.1	7.8	8.4	4.8	3.2	4.9	3.7	6.3
Norway	9.2	9.5	10.6	8.8	9.4	9.1	9.0	9.2	9.6	9.2	9.8	9.0	8.9	9.2	9.7	9.4
Poland	3.1	3.1	3.1	3.2	3.5	3.4	3.5	3.6	3.6	3.1	2.4	2.6	3.2	3.4	3.2	3.2
Portugal	3.6	4.1	4.3	3.8	4.3	4.2	3.8	3.9	3.7	3.8	3.9	3.7	4.0	4.2	4.7	4.0
Russia	0.8	0.7	0.6	0.8	1.2	1.4	1.5	1.3	1.3	1.4	1.7	1.6	1.3	1.6	1.6	1.2
Spain	4.5	4.5	5.0	4.5	4.1	4.1	3.9	3.8	4.2	4.2	4.4	4.7	4.5	4.3	4.2	4.3
Sweden	8.4	8.5	8.7	7.9	8.4	8.2	7.9	8.2	7.7	8.7	8.2	8.3	7.3	7.9	7.3	8.1
Switzerland	6.0	6.8	7.2	6.9	6.8	6.8	7.0	5.9	8.9	7.5	7.9	9.1	7.7	8.0	8.2	7.4
Turkey	0.2	0.3	0.2	0.3	0.3	0.3	0.3	0.3	0.4	0.4	0.4	0.4	0.4	0.5	0.5	0.4
Ukraine	0.2	0.2	0.3	0.2	0.3	0.6	0.8	0.9	1.3	1.2	1.4	2.3	1.9	2.0	1.7	1.0
United Kingdom	2.5	2.7	2.3	2.4	2.2	2.3	2.2	2.5	2.7	3.0	2.8	3.0	3.1	3.0	2.8	2.6
USA	3.8	4.0	4.1	3.9	4.0	3.9	4.1	4.2	4.2	4.1	4.1	4.2	4.1	4.1	4.2	4.1

In kilogrammes

Source: International Coffee Council

Figure 4 - Structure of consumption in K bags

STRUCTURE OF CONSUMPTION IN SELECTED IMPORTING COUNTRIES (CONTD)
(In thousand bags)

Portugal	Total	Volume				Percentage shares			
		Roasted			Soluble	Roasted			Soluble
		Standard	Pods	Subtotal		Standard	Pods	Subtotal	
1997	603			539	64			89.3%	10.7%
1998	696			618	78			88.8%	11.2%
1999	737			649	88			88.1%	11.9%
2000	646			566	81			87.5%	12.5%
2001	745			649	97			87.0%	13.0%
2002	720			622	98			86.4%	13.6%
2003	657			564	93			85.9%	14.1%
2004	685	583	1	584	101	85.0%	0.2%	85.3%	14.7%
2005	656	553	2	555	100	84.3%	0.4%	84.7%	15.3%
2006	671	562	3	565	106	83.7%	0.5%	84.2%	15.8%
2007	684	566	6	572	112	82.8%	0.9%	83.6%	16.4%
2008	654	527	13	541	114	80.6%	2.0%	82.6%	17.4%
2009	709	559	25	584	125	78.8%	3.6%	82.3%	17.7%
2010	750	568	50	618	132	75.7%	6.7%	82.4%	17.6%
2011	834	591	98	689	145	70.9%	11.7%	82.6%	17.4%
Average	697	564*	25*	594	102	--	--	85.3%	14.7%

* Average from 2004-2011

Source: International Coffee Council

Figure 5 - Consumption of coffee pods

CONSUMPTION OF COFFEE PODS IN SELECTED IMPORTING COUNTRIES

	2004	2005	2006	2007	2008	2009	2010	2011	Average
Austria	4	5	10	25	35	38	46	69	29
Belgium	57	67	121	115	79	123	125	140	103
Denmark	1	2	3	4	3	3	7	8	4
Finland						0	0	0	0
France	202	246	361	482	512	672	782	947	525
Germany	72	107	215	311	434	462	563	655	352
Greece	1	1	1	1	1	1	2	2	1
Italy	38	42	51	65	71	91	128	155	80
Japan	0	2	2	2	6	13	17	21	8
Netherlands	256	306	358	439	272	190	290	225	292
Norway			2	3	5	5	6	8	5
Poland				1	2	4	6	8	4
Portugal	1	2	3	6	13	25	50	98	25
Russia	1	1	1	2	2	1	2	2	1
Spain	13	18	24	35	47	56	71	83	43
Sweden			0	0	0	1	3	6	2
Switzerland	15	29	32	46	64	61	76	90	52
Turkey	0	0	0	0	0	0	0	0	0
Ukraine							0	0	0
United Kingdom	3	5	10	14	18	24	27	29	16
USA	0	32	62	63	98	146	266	358	128
Selected countries subtotal	663	866	1 257	1 615	1 661	1 917	2 467	2 903	1 669
% of total consumption in selected countries	0.9%	1.2%	1.8%	2.2%	2.3%	2.7%	3.3%	3.9%	2.4%

In thousand bags

Source: International Coffee Council

Figure 6 - Location of coffee consumption

LOCATION OF COFFEE CONSUMPTION IN SELECTED IMPORTING COUNTRIES (CONTD)
(In thousand bags)

Portugal	Total	Volume						Percentage shares					
		At-home			Out-of-home			At-home			Out-of-home		
		Store	Non-store	Subtotal	Chains	Other	Subtotal	Store	Non-store	Subtotal	Chains	Other	Subtotal
1997	603	213	0	213	5	385	390	35.3%	0.0%	35.3%	0.8%	63.8%	64.7%
1998	696	253	1	253	7	436	443	36.3%	0.1%	36.4%	1.0%	62.6%	63.6%
1999	737	271	1	271	7	458	465	36.8%	0.1%	36.8%	1.0%	62.2%	63.2%
2000	646	241	0	242	7	397	404	37.3%	0.1%	37.4%	1.1%	61.4%	62.6%
2001	745	281	1	281	12	452	464	37.7%	0.1%	37.7%	1.6%	60.6%	62.3%
2002	720	274	1	275	17	427	445	38.1%	0.1%	38.2%	2.4%	59.4%	61.8%
2003	657	254	1	254	19	384	403	38.6%	0.1%	38.7%	2.8%	58.5%	61.3%
2004	685	269	2	271	21	394	415	39.3%	0.2%	39.5%	3.0%	57.5%	60.5%
2005	656	259	2	261	21	373	394	39.5%	0.4%	39.9%	3.2%	56.9%	60.1%
2006	671	266	3	270	23	379	402	39.7%	0.5%	40.2%	3.4%	56.5%	59.8%
2007	684	269	4	273	24	386	410	39.3%	0.6%	40.0%	3.5%	56.5%	60.0%
2008	654	263	3	266	23	365	388	40.2%	0.5%	40.7%	3.6%	55.8%	59.3%
2009	709	293	3	296	25	388	413	41.3%	0.5%	41.8%	3.6%	54.7%	58.2%
2010	750	324	4	328	29	394	423	43.1%	0.6%	43.7%	3.8%	52.5%	56.3%
2011	834	386	5	391	31	412	442	46.3%	0.7%	46.9%	3.7%	49.4%	53.1%
Average	697	274	2	276	18	402	420	39.4%	0.3%	39.7%	2.6%	57.7%	60.3%

Source: International Coffee Council

Figure 7 - Organogram of Delta Cafés

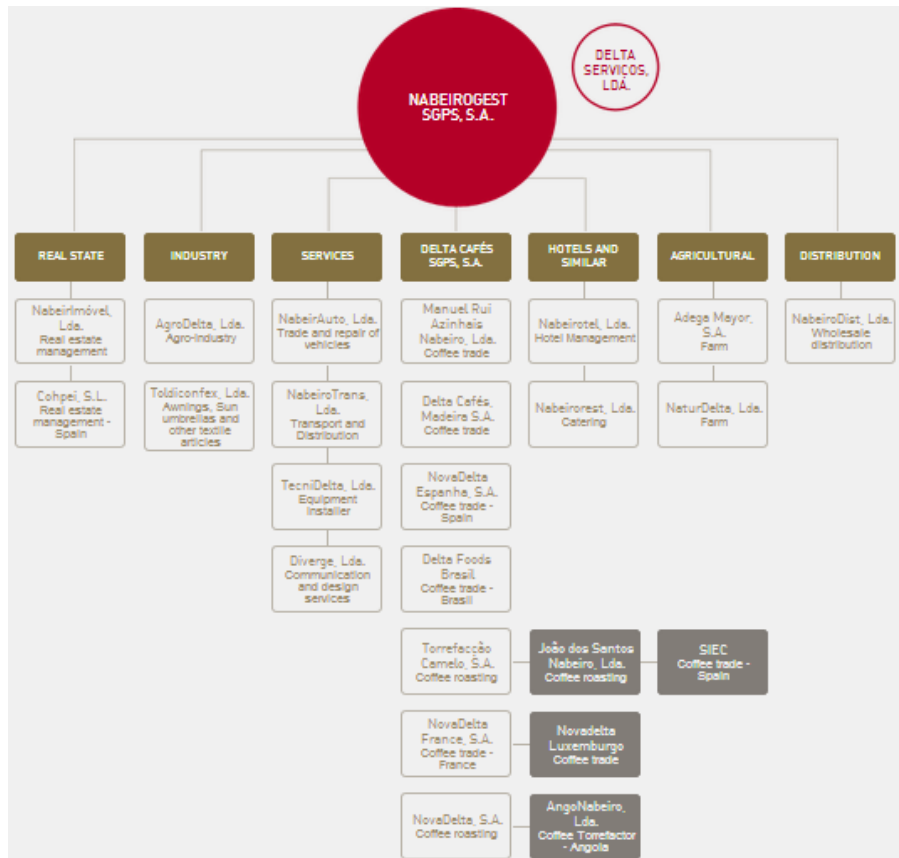


Figure 8 - Nespresso Range












Figure 9 - Dolce Gusto Range Portugal



Figure 10 - Delta Q portfolio 2007



Figure 11 - Delta Q Distribution Channels

Group	Brand	Type of store	Nr. of Stores	Machines	Coffee Capsules
	Continente	Hyper	39	-	X
	Modelo	Super	117	-	X
	Worten	Electrical Appliance	125	X	-
	Intermarché e	Super	300	-	X
	Ecomarché				
	Jumbo	Hyper	26	-	X
	Box	Electrical Appliance	14	X	-
	Pingo Doce	Super	334	-	X
	Feira Nova	Hyper	9	-	X
	E.Leclerc	Hyper & electrical appliance	21	X	X
	Rádio Popular	Electrical Appliance	34	X	-
	Minipreço	Discount	478	-	X
	Lidl	Discount	215	-	X
	El Corte Inglés	Department Store	2	X	X

Source: Insignias websites and study APED 2008 from Delgado, 2010

Figure 12 - Red Espresso

Introducing Rooibos tea espresso!

100% pure espresso ground Rooibos tea
Ready to use in your espresso machine
No caffeine
5 x more antioxidants than green tea
Makes a range of delicious hot & iced red drinks
Enjoy cafe style with all the goodness of tea

www.redespresso.com



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TEACHING NOTE

Matthias Berchtold wrote this teaching note under the supervision of Professor João Borges de Assunção and Paulo Alexandre Gonçalves Marcos as a dissertation submitted in partial fulfilment of requirements for the degree of IMSc in Business Administration, at the Universidade Católica Portuguesa, June 2013. This case is based on real events.

However the data and history of it are disguised as the main purpose is to illustrate a management decision. Copyright UCP, Matthias Berchtold, Professor João Borges de Assunção and Paulo Alexandre Gonçalves Marcos

1. Synopsis

Change is a constant progress and companies need to be able to respond quickly to the market and to their customers. For that reason, this case illustrates the importance for a company to align its strategy and its portfolio to changing consumer behaviours and tries to elucidate this to future managers.

This dissertation focuses on the writing of a case study about Delta Cafés, a Portuguese coffee company that has recently experienced problems by the implementation of a new product and was facing strong competition by a multinational giant.

Delta created Delta Q, a closed coffee capsuled system, in 2007 as a response to the new coffee industry trend towards the use of capsules and the huge success of its strongest competitor Nestlé. The managers at Delta Cafés saw themselves as David fighting against Goliath and their battle seemed even more fierce than expected. A year after the launch, Delta Q landed far off the target (16 % instead of 30 % market share), only reaching the third place, just behind the two Nestlé brands. For the management and innovation team of Delta Cafés the main challenge was therefore how to change this situation in order to achieve or to exceed the desired market share of 30 % by the end of 2009. The case depicts several decisions in the range of brand positioning, distribution channels, switching costs and differentiation the management team around the CEO Nabeiro can undertake in order to (re-)gain its market position.

Keywords: brand positioning; distribution channels; switching costs; differentiation

2. Teaching Objectives

The teaching objectives of this case are:

- The understanding that new consumer habits can make an established brand lose market share
- The insight of the importance of the alignment between strategy formulation and implementation
- The understanding of the importance of market entry order, entry barriers and switching costs
- The limitation of a company's option by choosing its brand positioning
- The awareness that distribution channels affect the product's image
- The influence of celebrities on a brand's image and how consumers perceive the brand and the product

3. Use of the case

This business case can be used to study various marketing and management topics at a Bachelor level in courses such as Marketing, Brand Management, Marketing Planning, or Marketing Communications. Lectures can use the suggested questions to establish an assignment for the students and encourage a class discussion between the students. Furthermore, this case helps to illustrate important management topics in brand positioning, distribution channels and differentiation strategies.

4. Class plan – Assignment questions

Each point tackles the key topics and issues and encourages students to discuss about the case:

- a) Analyse the coffee market environment in Portugal
- b) Analyse the coffee market in terms of degree of competitiveness and characterize the coffee market in terms of key success factors and trends
- c) Identify the life cycle of grounded coffee in Portugal
- d) What do you think are Delta Cafés main strengths and weaknesses and what are the advantages over its competitors?

- e) Evaluate Delta Q current positioning and why?
- f) Analyse both advantages and disadvantages of the two different strategic options
- g) How important do you think is “celebrity endorsement” in the case of Nespresso?
- h) Evaluate the importance of a “first-mover-advantage” and the implications of a later market entry?
- i) If you were in Mr Nabeiro’s shoes, which step would you have taken to succeed in the capsuled coffee market?

5. Analysis

- a) Analyse the coffee market environment in Portugal (15 min)

For the analysis of the case, the macro and micro economic forces effecting Delta Cafés’ success can be conducted and brainstormed with the students. For the analysis we follow the 5 C’s framework of Robert Dolan³⁶.

The 5 C’s describe five major areas of analysis that underlie marketing decision making: Customer, Company, Competitor, Collaborator and Context.

Company	Delta Cafés was founded 1961 as company that specializes in coffee roasting, processing and packaging. It is one of the most recognized brands of Portugal and maintains a strong affiliation among Portuguese customers. Delta’s key factor is its position as “the people coffee” and availability and proximity next to quality play a crucial role in Delta’s success.
Customer	Portuguese are vivid coffee drinkers and cafés are deeply rooted in the Portuguese culture. Unlike most countries Portuguese prefer to drink their coffee outside their homes in cafés and bars. However, due to several factors home consumption has increased and drivers the trend to new forms of drinking coffee. Additionally, like in all Western

³⁶ Dolan, Robert J., 2000. ‘Note on Marketing Strategy’, Harvard Business Review

	countries, consumers have become more health concerned and a good nutrition is seen more and more important.
Competitor	The Portuguese coffee market is heavily battled. Strong competition not just comes from large international corporations like Nestlé but also from successful Portuguese companies like Sical and Nicola. Moreover, private label make the competition even fiercer.
Collaborator	As out-of-home consumption is so important, the ways of distribution is essential to every company. Cafés and bars that sell usually only one brand are one of the most important distribution channels. Moreover, due to emerging trends in the beverage industry collaborations among different sectors become more and more important.
Context	With the on-going economic crisis as well as stagnating purchasing power and demographic the Portuguese coffee market is definitely not flourishing.

- b) Analyse the coffee market in terms of degree of competitiveness and characterize the coffee market in terms of key success factors and trends (25 min)

This question aims to understand Delta's environment in terms of competition through the Porter's Five Forces framework:

The Porter's five forces analysis is a framework for industry analysis and business strategy development. The origin of the model is the industrial organization approach. The basic idea is that the attractiveness of the market is mainly determined by the market structure. The market structure in turn influences the strategic behaviour of firms, ie, its competitive strategy, which in turn determines their success in the market. Thus, the success of a company is therefore at least indirectly dependent on the market structure.

The model is based on the idea that the attractiveness of an industry is determined by the expression of the five major competitive forces:

- *Rivalry among existing competitors / intra-industry competition*
- *Threat of new entrants*

- *Bargaining power of suppliers*
- *bargaining power of customers*
- *Threat of substitute products*

The stronger the threat of these five competitive forces, the less attractive is the considered industry, and the more difficult it is to achieve a sustainable competitive advantage. Companies should therefore, try to work in an industry with attractive industry structure and build a defensible position in their industry, so a position in the five competitive forces have as little menacing expression. Companies can also affect the five forces using appropriate strategic orientation. This may increase the attractiveness of an industry. However, if the distribution of the company for the benefit of competitive forces affect their competitive position, it may not turn out to be the long-term consequences understood or consciously accept destroy this structure and profitability of an industry as well.

The following charts illustrate the main characteristic for each dimension in the Portuguese coffee industry:



Threat of Entry	Buyer Power	Threat of Substitutes	Supplier Power
MEDIUM	HIGH	MEDIUM	LOW
High capital requirements (machines and infrastructure cost intensive)	Coffee is the world's most widely traded tropical agricultural commodity	The beverage industry is a market place for fast moving consumer goods. Industry is very innovative and switching costs are zero	Coffee is standardized product and coffee producers have low switching costs
Economics of scale benefits for existing companies	More than 2 billion cups of coffee are drunk every day.	Other products e.g. energy drinks & tea can have the similar benefits for the customer	Coffee is the most traded commodity with small to large producers all around the world
However, international player can enter market easily	No switching costs for customers	However, coffee is cultural product. Long tradition and part of daily routine of mankind	Many suppliers in all countries, quality varies however

The competitive rivalry in the Portuguese coffee industry is therefore strongly influenced by the HIGH bargaining power of the buyers, the MEDIUM threat of new entrants and the increasingly threat of substitutes. Moreover, the intensity of the competition between the companies on the market is high due to the following factors:

- many similar types of competitors available
- slow growth of the industry
- high exit barriers due to specialized production
- and difficulty creating product differentiation

Characterize the coffee market in terms of key success factors and trends

After answering this question, students should recognize the important success factors of the Portuguese coffee market and identified the major trends.

Product quality: Given the analysis of customer preferences and the results from Grupo Consultores barometer brandscore (see chapter 4.2) product quality and taste is the main

purchase criterion. As coffee is a product which has to be tasted in order to see and feel its value, customer loyalty and word-to-mouth has a big influence.

Moreover, the long-lasting tradition and culture of the Portuguese coffee market and the fact that Portuguese coffee brands are often named as “Portuguese things to be proud of”, quality is essential and many people are emotional attached to the brand. (see chapters 3.1, 4.2)

Availability: The other key success factor is availability meaning place and distribution channels.

As differentiation between coffee producers is only LOW to MEDIUM therefore availability has become a crucial factor. Portugal is one of the few countries where out-of-home consumption is more commonly enjoyed outside in independent outlets (cafés) than at home, accessibility is vital for a company’s success. (see chapter 2.2) As consumers go daily to cafés which usually only have one brand of coffee availability of a brand is a key factor. Therefore every company tries to be as in many cafés as possible. Additionally, as nearly all coffee that is consumed at home is purchased in grocery shops, presence in the large food chains (Pingo doce, Continente,...) is also important.

Trends: Consumer consumption started to change around 2005 when more and more Portuguese began to drink their daily coffee at home. Triggered by this development capsuled coffee systems started to take off in 2006. Consequently, one of the main drivers of the Portuguese coffee market is nowadays capsuled coffee with estimated growth of 300 % (see chapter 4.1)

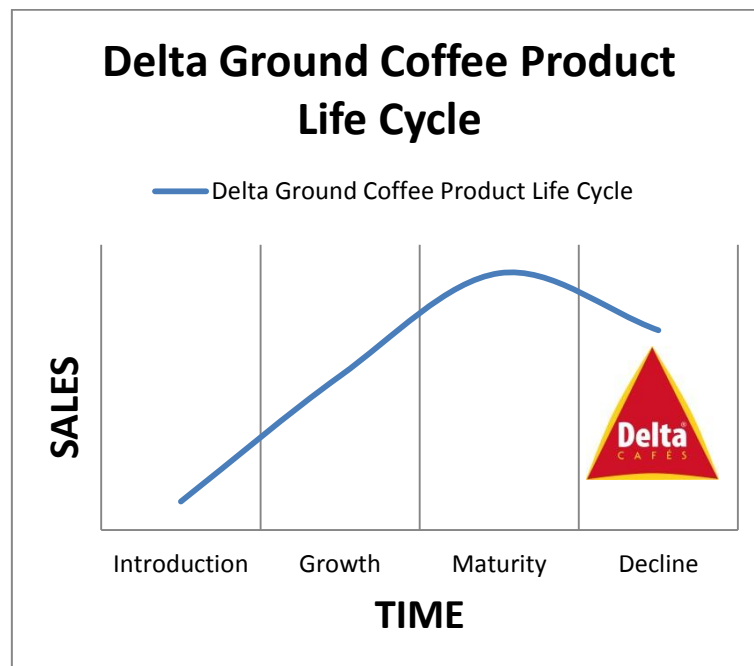
c) Identify the life cycle of grounded coffee in Portugal (10 min)

By identifying the product life cycle of grounded coffee in Portugal, students will get inside in the drivers of new trends and deduce relevant implementation measures.

The product life cycle is a concept in business management and describes the process between the launch and completion of a marketable product and its removal from the

market. The "life" of a product is divided into several phases, which represent the main tasks of the active product policy in the context of life cycle management.

The history of grounded coffee in Portugal is centuries old and also Delta Cafés has been a market player for over 50 years. However, with the increase of capsuled coffee and the economic turmoil its success has been challenged. The new capsule trend and high competition have put Delta's grounded coffee in the decline phase. (see chapter 3.1, 4.1, 4.4)



- d) What do you think are Delta Q's main strengths and weaknesses and what are the advantages over its competitors? (20 min)

By knowing which strengths and weaknesses Delta Cafés has, the students will better understand what actions can be taken regarding its competitors.

The SWOT analysis (acronym for strengths, weaknesses, opportunities and threats) is an instrument of strategic planning; it is used for positioning and strategy development by companies and other organizations. The SWOT analysis is an important tool of strategic management and also the basis of many marketing strategies.



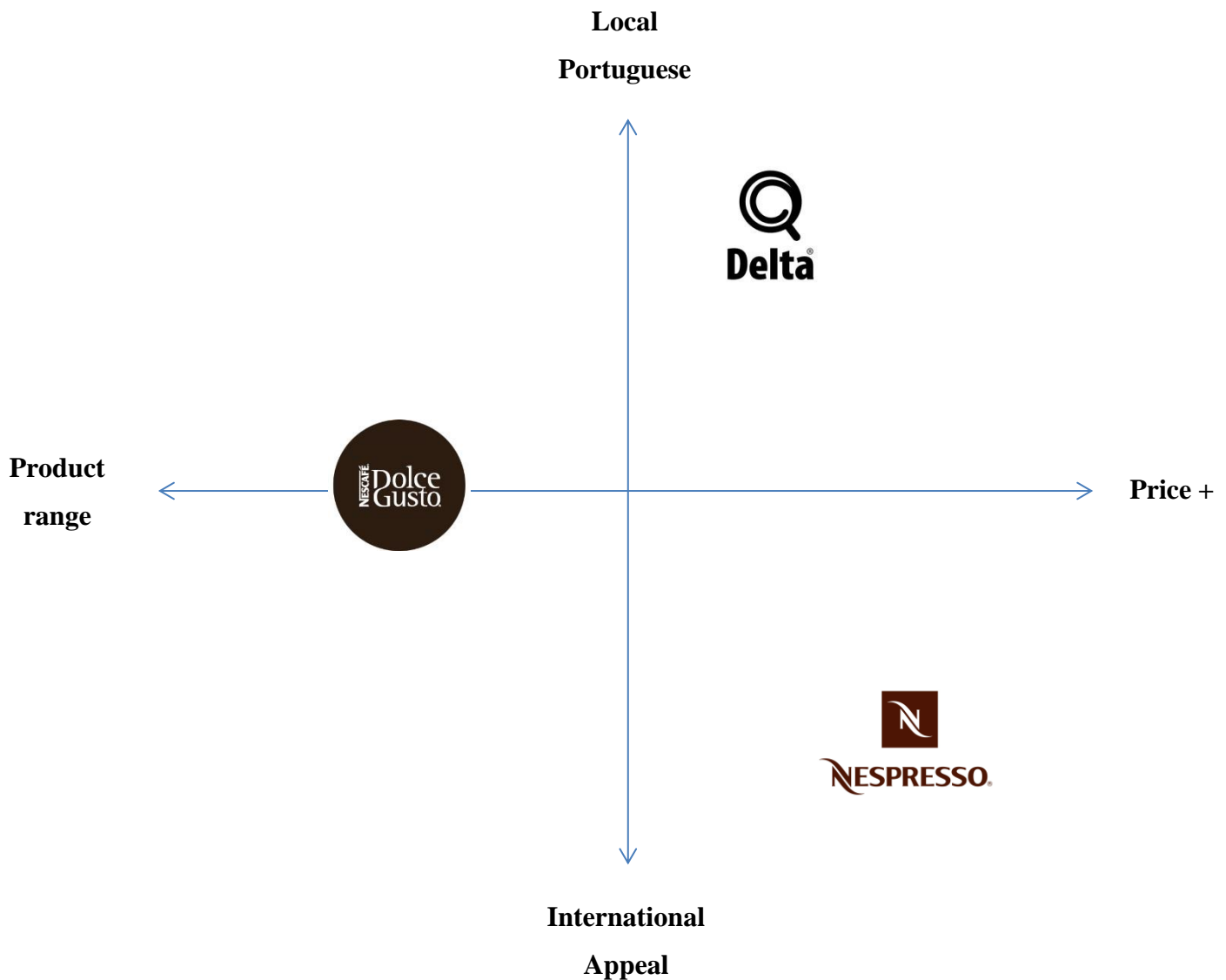
e) Evaluate Delta Q current positioning? (15 min)

This question aims to understand Delta Q's positioning. After analysing this point students will be able to understand the importance of market entry order, entry barriers and distribution channels as well as brand positioning.

Buyers opt for the products and services that promise you the greatest benefit. If the needs and desires of the customers are better understood than the competition and thus a higher value may be delivered, this is a key to success.

With the right positioning a unique standing in the market is achieved. The point is to stand out of the competition and to offer customers more value. Even simple and equivalent products can be differentiated. Using a successful positioning creates a contrast to the competition, the own product benefits are highlighted and it creates a competitive advantage.

Perceptual map



However, when analysing Delta Q's positioning we will also need to take into consideration the special situation and conditions when Delta Q entered the market.

Delta Q was first introduced four years after Nespresso and one year after Dolce Gusto. It had therefore a disadvantage when it entered the market. Delta Q, the follower had to adapt its strategy to this situation. As Nespresso and Dolce Gusto used a closed capsuled system, Delta faced a significant market entry barrier. Potential customers had

already bought a coffee machine from the competitors for a substantial price (cost of machine) and could therefore not use Delta Q capsules without high switching costs.

As a consequence Delta priced its capsules at a price which was between Dolce Gusto and Nespresso; targeting more price sensitive customers who already related to the brand and valued Delta as the “*people’s coffee*”. (see chapter 4.4)

Regarding distribution channels, Delta Q also followed the “people’s coffee approach” and used all possible means for selling its capsules. Unlike Nespresso it did not just focus on premium boutiques or the internet but broaden its distribution channels like Dolce Gusto to electronic appliance stores, grocery stores and supermarket chains. Delta followed thus consequently its credo of availability and proximity to the customer. As a result Delta was less perceived as a premium brand like Nespresso but could emphasize on its core value as a Portuguese brand.

Moreover, due to the fact of the huge brand awareness of Nespresso at the time of market entry of Delta and thanks to the successful global marketing campaign of Nespresso with George Clooney, Delta Q found it hard to compete in terms of marketing and brand awareness.

- f) Analyse both advantages and disadvantages of the two different strategic options: 1. Red Espresso; 2. Partnership with Tetley (15 min)

By knowing which advantages and disadvantages each strategic option has, students will better understand what actions promises a greater success for Delta.

Red Espresso

Advantages

- Uniqueness
- world innovation
- patent
- tap health-conscious customers
- create new demand
- improve Delta's brand image
- diversify product portfolio

Disadvantages

- not tea or coffee
- unknown product
- unknown company
- small South African company = small resources
- difficult marketing
- too new
- hard to introduce to customers

Partnership with Tetley

Advantages

- strong partner
- improve Delta's brand image
- diversify product portfolio
- respond to growing tea market
- partner for international growth

Disadvantages

- danger of cannibalization
- drives away from Delta's core business
- difficult partnership (Tata vs. Delta)
- one machine for tea and coffee

- g) How important do you think is “celebrity branding” in the case of Nespresso?
(10 min)

This questions aims to enhance the students understanding of the importance of celebrities when promoting a product or service.

Celebrity branding or testimonial is a term used in advertising and refers to the specific endorsement to increase the credibility of the advertising message for a product, a service, an idea or institution by the target group most known person. Marketers hope that a testimonial attracts attention, transfers its image to the brand and enhances the positioning. However, the mere use of a celebrity is not a guarantee of successful and effective advertising and has usually little effect on the sales increase. In addition to the “right” star, the creative concept of the campaign is essential to the brand.

Since 2006 George Clooney represents Nespresso and works as a testimonial for the brand. The commercials with the Hollywood star are highly popular and are well-known even to those who are not customers of Nespresso. Since the partnership with Nestlé, Clooney shot 15 individual ads, most recently with another star, John Malkovich.

Nespresso benefits greatly from this partnership:

Firstly, the global appeal of Clooney (voted three times “Sexiest man alive”) definitely attracted attention to the brand and provided an almost unique recognition to Nespresso. Clooney also targeted perfectly the target group and endorsed the image of the brand. In spite of the great popularity of Clooney, Nespresso did not suffer from the feared “vampire effect”.³⁷

- h) Evaluate the importance of a “first-mover-advantage” and the implications of a later market entry?

By knowing the importance and implications of an early market entry, students will better understand Delta’s position in the market.

³⁷ Vampire effect refers to a loss of attention from the actually advertised product by the deflection for example through use of humour, sex (in the sense of "sex sells") or testimonials (especially celebrities). This effect may also occur with strong emotional motives. It is also called “over activation”.

First Movers or pioneers launch a new product that has no competitive product compared to. Companies try with a first mover business strategy to achieve a competitive advantage through an early launch and gain several other benefits³⁸:

- *Cost advantages and experience curve: Successful pioneers can achieve higher market share and higher sales volumes.*
- *Securing scarce resources: resources early pioneers to "occupy" and use exclusively in favourable cases. Examples are long-term relationships with suppliers and trading partners.*
- *Exclusive exploitation rights: First mover protects its new processes and products through patents*
- *Set technological standards: Early providers offer greater influence on the enforcement of (quasi-) standards.*
- *Image building benefits for customers: innovative pioneers have the chance to achieve a reputational benefit ("Technology Pioneer", etc.).*
- *Achieve higher prices: Meeting pioneers as temporary "quasi-monopoly" with their products on the demand earlier buyers, a relatively high selling price can be obtained.*

In terms of the capsuled coffee market, Nespresso clearly was the first mover and pioneer. It not just entered a market but rather created a new one. As market pioneer achieved a competitive advantage on multiple levels:

³⁸ (Wikipedia, 2013)

Image Building

- Nespresso, as the First Mover could build an image of a world novelty and premium brand
- strong celebrity endorsement with George Clooney enhanced that effect

Pricing

- premium brand with premium pricing
- distribution only through boutiques and online stores
- quasi-monopoly
- high switching cost barrier for future competitors

Set Standard

- Nestlé created the first capsuled coffee system
- set standard for every future development in customers' mind

Patent

- patent guaranteed quasi-monopoly for years

As a result, the follower Delta Q could gain market share through following effects:

Free Rider Effects: Delta Q can benefit from investments in market development of the pioneer, for example, when building a new infrastructure is required or scepticism of the customers are to be eliminated over a new product.

Error prevention and cherry-picking: Delta Q can observe negative customer reactions and avoid mistakes of the pioneer Nespresso.

Inertia of Nespresso: First successful pioneers can be lazy and afraid to replace first successful product generations in time. This would help Delta to overtake the early leader.

- i) If you were in Mr Nabeiro's shoes, which step would you have taken to succeed in the capsuled coffee market? (15 min)

After analysing the industry, the market, the competition, the company and the brand students should now be able to make an informed decision to solve the case.

This question has no right or wrong answer. As every business decision is based on various variables and observations, this answer only reflects my personal analysis and opinion.

Delta is the David against the Goliath Nestlé with the additional disadvantage of a late market entry and high switching costs that make it inconvenient for consumers to change their coffee system. Hence *differentiation* is the key.

As ground coffee is at the end of its life cycle and other forms of coffee drinking become more and more popular it is essential for Delta Cafés to be on the right track. Therefore I find it crucial for Delta to hop on new consumer trends to offer a differentiation benefit to its customer. My advice for Mr Nabeiro would therefore be to first:

1. Develop Red Espresso capsules to create a buzz and word-of-mouth movement that compensates the lack of marketing resources and at the same time introduce a unique product which offers health benefits and hence targets new consumer trends and behaviours.

Red Espresso capsules probably will not have the sales volumes to increase Delta Q's market share but have, however, a thrill for customers to switch their competitor's coffee machines to Delta's.

As a second step:

2. Introduce tea capsules with Tetley to enter into a strong and long-lasting partnership with a large multinational corporation. This will not just foster a success of Delta Q in Portugal but also create a good base for future ventures abroad. Additionally, Delta Q will have yet another key differentiation to win the battle against Nestlé and gain market shares in this competition.

6. What happened?

By the end of 2011 Delta Cafés could claim the market leadership in the capsuled coffee market in Portugal, representing 13 % of Delta Cafés' sales or 40 million euros. Moreover, according to the consumer research society GfK, Delta began the year 2011

with a share of 9.2 % machines sold and ended with 27.7% units sold. This means that in terms of machines sold, the cumulative total now stands at 400.000 units sold and 102.5 million capsules distributed in Portugal. ³⁹

³⁹ (Negócios, Rita Faria, 2012)