

Standardization or adaptation of nespresso club



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Nespresso is the worldwide pioneer and market leader in premium-portioned coffee. It launched the first system of extracting coffee from capsules to the domestic household market. They currently operate more than 200 boutiques in key cities around the world. The Nespresso Club concept has been successful in Western Europe. The concept is simple: when a machine is bought, the customer joins Nespresso Club on Internet to purchase capsules. This case study investigates on the expansion of Nespresso Club in China and Eastern Europe and that may affect Nespresso's entry of these markets.

Question 1: Discuss the key environmental factors that may affect Nespresso's entry of these markets, and comment their business implications.

Coffee tastes and perceptions are changing fast. Both Western and Eastern European countries have seen an explosion of trendy coffee shops over the past decade. Coffee has become a fashionable lifestyle drink and consumers across Europe are demanding products that allow them to replicate the coffee shop experience at home. (Mintel 2010)

On the other hand, the key environmental factors that may affect Nespresso's entry in the market of Eastern Europe and China are grouped into five factors:

Social-Cultural:

The Chinese have the habit of drinking tea. About coffee, they know only freeze-dried coffee. China is the world's first country to have planted, prepared and drank tea. A culture related to tea made its appearance in a long history. Tea is indispensable in the life of Chinese. It is not only seen as

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a beverage, but it has also become a cultural art that expresses the philosophy, the aesthetic vision and the lifestyle of Chinese.

According to the secretary of the European Coffee Association, Eastern Europe could be the biggest potential developing market of coffee.

Moreover, the consumption could develop radically in Poland, Romania and the Czech Republic (Mooradian & Swan 2006). He also added that for coffee consumption grows in Eastern Europe, it would be necessary to stop for consumers to consider it as a luxury product, but as an everyday consumer product.

Tea is truly present in Russian society and it is inseparable from the “Samovar Ceremony”. Today, tea drinking around the samovar is to perform a warm and friendly gesture. (Healthy Tea Magazine 2008) It is a moment of sharing within the community in which everyone benefits from home and the presence of each. However, coffee market is expanding in recent years in this country.

Legal:

There are several barriers in China to establish itself in this country. There is a lot of paperwork to enter in the country. Nespresso sells the machines under license. Their concept, the machine and capsules are protected by 70 patents (School Project 2010). Nevertheless, the China market is risky because after few months the product is counterfeit. No legislation is truly effective in China for the counterfeiting.

Under the legislation in force in Russia, over 60% of the products to be sold in the country require compulsory certification or license. That is to say, they

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must be approved by relevant Russian authorities to verify compliance national standards (Malchik 2010).

Economic:

China is the second largest economy after the United States. The country had a particularly strong economic growth since the 1980's. However, the population remains relatively poor. There are large disparities between regions and individuals. (BBC News 2009)

Eastern Europe consists of a poor population, but its emerging economies have improved their purchasing power in recent years. Nevertheless, machines and capsules are expensive in spite of everything.

Political:

China has introduced a new tax for foreign companies (Proexport 2008). It would be for maintenance and construction of cities and educational support from foreign companies and foreign persons with business interests in the country.

To control imports, the Chinese authorities have introduced restrictive measures applied to many products: the requirement to obtain an import license, the application of quotas and the application of tariff measures. (Thompson 2009)

In Russia, there is a lot of bribery for companies. Approximately 80% of companies operating in Russia are forced to pay bribes. Further, the average amounts have increased in recent years. In 2000, a company had to pay on

average £6500 to have no trouble. Now, they must give £85 000. It is the equivalent of the price of a small apartment in Moscow.

Écouter

Lire phonétiquement

Technological:

Consumers must join online the Nespresso Club to purchase capsules from Nespresso Boutiques but only 45% of the population in China have Internet.

Over 80% of households have Internet access in countries of Northern Europe. Eastern Europe is trying to gradually catch up delay Internet access, but it is very long to implement.

The main business implications of these key environmental factors are that the coffee market is no place in Eastern Europe and China because the tea market is dominant in these markets. Moreover, legal problems are particularly numerous. Trade barriers create a difficulty for Nespresso's entry and Nespresso strategy can be in danger as few people have computers or Internet. Thus, the different cultures of these countries with their tastes, their traditions, their customs and their policies may affect Nespresso.

Question 2: Consider opportunities and challenges for Nespresso in these markets in managing customer relationship and sales through the Internet. What are the advantages and disadvantages of such an approach?

On Nespresso's website, the Nespresso club can give access to a full range of services tailor-made for customers. This concept has been successful in Western Europe.

Opportunities for Nespresso are to have consumers on Internet to control the different information.

The advantages for Nespresso in these markets in managing customer relationships and sales through the Internet are the ability to know the expectations of customers and to read the consumer reviews on products. Nespresso Club allows a direct customer contact thanks to emails or discussion boards. On Internet, this is the best way to promote products and introduce the company. It creates a close relationship with consumers and forms a special connection. It hopes to turn them into brand advocates. In addition, it updates the database marketing and it can adapt sales strategies. Furthermore, if it does not sell in supermarkets but only in Nespresso Boutiques and Nespresso Club, the branding is positive and reflects a luxury product. By having the main service exchange online, Nespresso retain control of supply channels. Thus, it can assure high quality standards that build a brand identity. (New Media 2009)

Challenges for Nespresso are to convince consumers to drink coffee in these markets, to buy a Nespresso machine and to join Nespresso Club to purchase capsules.

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The disadvantages with such an approach are that the consumers dislike purchasing online, especially Chinese people. Moreover, in China, only 45% has Internet and boutiques are in big cities. There is a large part of the country, which is not covered by Nespresso boutiques because major cities are in Eastern China on the coast (Alvarez & Wilding 2008). Such an approach is risky for several reasons. Consumers do not necessarily want to join in the club online, especially to purchase coffee capsules. Further, some consumers prefer to have someone to talk in face-to-face and not on the Internet through emails or discussion boards. In Eastern Europe and China, a portion of population has low incomes. They do not want to waste time so they buy products they find at the supermarket. In addition, they have not all used to order online because this is not in their manners.

Question 3: Given that the Eastern Europe and China are emerging markets, would you consider that Nespresso could successfully apply the Nespresso Club concept developed for the Western markets, or should the marketing strategy be adapted to reflect the markets' specifics? Support your view on this with examples.

Nespresso has not adapted its concept in these markets. However, some companies have chosen the adaptation strategy:

Carrefour is a French international chain hypermarket. In 2009, Carrefour is the third in the world biggest to make profit behind Wal-Mart and Tesco. The adaptation of Carrefour consumption patterns for Chinese people is evident in the stores: the fish are alive in aquariums, customers choose their own pieces of meat and fresh products are extremely varied more than in Western Europe.

Likewise, McDonald's in China has adapted its menu to meet the Chinese taste. There are a lot of fried chicken instead of meat in the hamburger because more Chinese people like it. Unlike Western Europe people, they like meat more than fried chicken in their hamburger. Further, it is very important to most Chinese consumers to have coupon deals so McDonald's offers several coupon deals to compete the KFC fast food. Nevertheless, McDonald's has standardized the concept in Europe and USA with identical hamburgers and restaurants.

Nespresso is not the only one to have standardized its own concept. Several companies have preferred standardization:

Like IKEA, it offers home products that meet the needs of people worldwide. For people with needs, tastes and budgets which are very varied. IKEA has the same structure and offers the same furniture catalogs in the world. IKEA stores around the world have the same range of products. It sells a similar lifestyle worldwide. The catalog contains from 2000 to 3000 products and it is the same furniture everywhere in the world. The concept is a success in Russia. It worked very well.

Then, Starbucks Coffee has established in China with the same concept as in USA and Europe. Coffee shop has a friendly atmosphere thanks to its decoration, comfort (chairs, sofas), the music played and the ability to take his time in the shop (Wi-Fi connections). This place has attracted the Chinese despite their taste for the tea.

Nespresso chose to apply the same concept in Eastern Europe and China. It is a good strategy because it achieves economies of scale in research and <https://assignbuster.com/standardization-or-adaptation-of-nespresso-club/>

development. Thanks to standardization, Nespresso has a consistent brand image across markets. Further, a standardization strategy is much less complex to implement and it is quickly operational (Chernev 2007).

Standardization can lead to failure despite the economies of scale that it generates because people do not want to change or abandon their culture.