

# Nescafe brand: an analysis



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Nestle promise we commit to everyday, everywhere- to enhance lives, throughout life, with good food and beverages. Nestle was founded in 1866 by Henri Nestle and is world's leading confectionary, nutrition and food company today. This company is based on Vevey, Switzerland and employing around 280000 people in over 150 countries and running 461 factories or operation in 83 countries. The strategy of the Nestle is guided by several fundamental principles:

Innovation and renovation are the basis for the growth of the product balancing the geographic activities and product lines

Never sacrificed long term potential, for the short term performance

Regardless of the geographical barriers, Nestlé's priority is to bring the best and most relevant products to people

## **Nescafe UK**

Nescafe is one of the renowned brands among various brand produced by the Nestle. ' The rich taste of your favourite coffee is reflected in its rich history'. Generally, coffee is a beverage that has some properties which can energize and revitalized the consumers. In the UK, Nescafé is targeting basically young adult customers range between 20-35, middle and high class people and also the professional or working executive (who are working very hard).

In present context, the biggest challenge for every company is to recover and to survive in the recession, and, Nescafé is not apart from the current situation. Even though it is still in the profit, companies profit is getting lower

due to downfall on the sales ' the volume of goods sold rose 2. 8% in 2008, but down from 4. 4% in 2007.

Figure 1: Sales trend of Nescafé

The bar chart above shows the continued growth of the sales of the Nescafé till the second half of the year 2008; but, the profit of the company is gradually decreasing as the sales started to fall by the first half of the year 2009. The main reason behind this problem is the macroeconomic factors like the global recession that's leads to the increase in the inflation rate in UK by 3%-5% (generally, 2-3% of the inflation is acceptable).

However, to revive from the current situation, Nescafe has applied various innovative and renovate ideas. Nescafé even have various brand within the coffee, for example Nescafé gold, premium, decaff etc. targeting the various range of the customer according to the taste and the preferences. Besides coffee, the company has launched other product such as coffee maker machine, and also following sustainability strategy, refill pack, etc. under Nescafe plan for profit maximization. It is also merging with various other companies like burger king or other businesses using their Nescafe Milano Plan.

Following these alternative, Nescafé is expecting to increase its sales in the second half of the year 2011 by reducing the cost of production, improving the market and price strategy to capture the target markets.

## **A. Alternative Scenarios with regards to the cost of production:**

The company is having down fall in the sales as the variable cost associated with the cost of production increases due to economic factors like increase in labour cost, raw material, energy bills, cost of packaging, transportation and various other factors.

The following table shows the variable cost, represents the minimum cost required to produce 3000 quantity of Nescafé for the first half of the 2011, which is in increasing order as the quantity produced increases.

Material for Production

Cost associated ' 000'

Total Cost

Variable cost:

Raw material (coffee, glass jar, packing paper)

Transportation

Part time worker

Energy

Marketing

300

100

50

175

125

750

Fixed Cost

Plant and Machinery

Building and Renting

Full time worker

Others

200

100

150

50

500

Total

1250

Figure 2: variable cost associated with production for the 1st half of 2011

Figure 3: Various cost and output (' 000')

As the quantity produced by the Nescafe increases, the cost associated with the variable cost increases, however, the fixed cost remaining the same, results in the reduction of the revenue so it has to either increase the price of the product which leads to decrease in the demand, due to high inflation, the customers has less purchasing power (even though the income has increases, the proportion of the increase in income and inflation is equal) or Nescafe should try to reduce the variable cost associated with the production.

Figure 4: Trend of total fixed cost and total variable cost

The main challenge of the Nescafé is to sustain in the competitive market and redeem the profit. The Nescafe plans are followed in order to reduce the variable cost within the micro level:

Transportation cost: The global initiatives plan which support the commitment of the Nestle responsible farming, production and consumption. Under this commitment, responsible production is the most foremost steps related to sustainability with environment by producing the refill pack for the various coffee including 150g Nescafé gold blend and decaff and original which also lures to the reduction in road journey and transportation cost by 50% for the same amount of coffee as one can fit twice refill pack in one pallet.

Energy Consumption: Another alternative is to reduce the consumption of the energy using energy saving measure. In this method use the coffee

ground as a fuel which supply 20% of the energy. While other method is the use of new innovative technology ‘ new refrigeration plant’ to reduce and improve the processes.

Packaging cost: Nescafe is cutting cost of the production by reducing the weight of the glass jar used for the coffee. The approach is use of refill pack made of paper which is cheaper than the glass jar.

Thus, by following the above approach the new variable cost associated with the production for the second half of 2011 is shown below:

Variable cost

Cost

Raw material

Transportation

Energy

Part time worker

Marketing

241

50

140

50

125

Total

606

Figure 5: New variable cost

Figure 6: New cost and output (' 000')

Figure 7: Revised trend of fixed cost and variable cost for 2nd half

As comparing the two charts, we can conclude that the Nescafé is able to reduce the variable cost by applying the various alternatives. At the same level of output e. g. 3000, the variable cost was 750, 000 before (fig 4) whereas reduced to 606000 for the second half of the 2011 (fig7).

The other various alternatives available for the Nescafe, in macroeconomic concept, can be as follows in terms of:

Recession, shift to a plant to the emerging country or the country with the minimal effect of recession such as china or India i. e. slowdown-hit. The company can shift the plant to these country as raw material i. e. coffee can be produced here as well.

Employment, in India, the unemployment rates are higher, whereas, china is providing the cheap labour to attract the new investors so the company can really be benefited from the low labour cost..



Political stability: Both of these countries are politically stable. Nescafe can't shift plant to the insecure country as there will always risk of the close down due to civil wars.

## **B. Elasticity of a Nescafe**

Price Elasticity of supply (PES): is calculated as:

PES:  $\frac{\% \text{ change in quantity supplied}}{\% \text{ change in price}}$

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According to table below, the supply elasticity of Nescafé is less than one which imply that the supply is not responsive towards the price change so its supply inelastic. The change in the quantity demanded is 0. 5%, less than the change in price, 0. 9%.

The Nescafe cannot have extra supplies of the raw material i. e. coffee due to limited suppliers and also depend on the climatic condition, the decision made before about the plantation of coffee that affects the production yield. As the coffee is main ingredient, it cannot switch to other raw material and in other hand; it cannot hold the product for a really long time as product is a consumable and not a lifelong. It can still produce more goods for the same quantity with same cost of production but will be less than as of the supply elastic due to some constraints.

Fig 8: Price elasticity of supply

Income elasticity of Demand (IED): is calculated as:

IED=  $\frac{\% \text{ change in Quantity demanded}}{\% \text{ change in Income}}$

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### % change in Income

As per the following table, the income elasticity is between 0 and one which shows that Nescafé is the normal good and less income inelastic. As the income of the consumer increases, other things remaining constant, the demand of the Nescafé increases. For instance, the income elasticity of Nescafe is 0.1 as income rises to 10500 from 10000, which implies demand is not very sensitive towards changes in incomes which is the nature of the normal goods.

### Figure 9: income elasticity

Cross elasticity of demand (CED): represent the responsiveness of the demand of the Nescafé to the change in the price of either complimentary goods e. g. sugar or substitute product e. g. Kenco and calculated as:

$CED = \frac{\% \text{change in demand for Nescafé}}{\% \text{change in price of Kenco}}$

%change in price of Kenco

When the price of the sugar increases, demand of the Nescafé decreases and vice versa and cross elasticity of demand will be negative, whereas, if the price of the substitute product decreases, the demand for the Nescafé will increase, and vice-versa, and is positive as shown in table below.

### Figure 10: cross price elasticity

## **C. Market structure and Strategies:**

Nescafe shares the attributes of the perfect market structure as it is inelastic to the supply and income of customers with horizontal integration product.

The assumptions are:

Existence of many firms e. g. Nescafé, Kenco, bru, percol, carte noire, super market brand, etc.

perfect knowledge about the market and target customers

homogenous product but customers distinguish the product with brand name and taste preferences

Free entry and exit

Nescafé's strategy based on the 'think globally, act locally'. According to Keegan and Green 'Nescafe coffee is marketed as a global brand even though advertisement message and product formulation vary to suit cultural difference'.

Considering the rival company, Kenco is biggest competitor of the Nescafé. The strategy of the Kenco is to produce sustainability product and refill pack instead of coffee jar.

Nowadays, customers are more concern about the ethical business and the environment friendly product, so to maintain the current market shares; it has to follow the concept of refill pack and the environment sustainability.

Besides these, following are the possible alternatives:

Introduced the new product lines and product differentiation. Recently, Nescafe has launched 3 in 1 pack which can be followed with 2 in 1 product.

#### Fair Trade

Nescafe can vertically merge with the different company offering different but co-related product. For example, Nescafé has merged with Burger king, a food chain company that offer Nescafé coffee to its customers with its food. The other strategy, Nescafe can merge with supermarkets and offer free samples to the customer as a complimentary product and with other businesses using its Nescafe Milano Professionals plan.

Provide the customers a taste of coffee at a busy street as a reminder strategy and distribute the free samples. On the other hand, Nescafé should enhance the vending machine network and should set up in train station, airport and on busy places.

Advertisement includes sales promotion, publicity which attracts different target customers. The different advertising is strategies applied according to customers and countries values and beliefs but with same logo and red mug cups.

Research and development

Enter into emerging market

#### **D. Market Segment and price strategy:**

Nescafe is the UK's prominent coffee brand followed by the other various substitute products like Kenco, percol, super market brand etc. Now, the

main customers of coffee are university student, working people or professional but should also try to attract should target people of above the age of the 35 and teenagers to maintain its market share.

Figure 11: © 1995: the new internationalist

### **The possible pricing strategies for the Nescafe are:**

Competitors and market oriented price: Nescafe should be able to maintain or reduce the price according to the market or competitors. If its price is higher than the competitor's, it will affect the demand and profit as well so it should be competitive price.

Promotional allowances like offering during the occasions like buy one get one free offers in the super market, offer Nescafé red mug with 400g of pack, discounts on second purchase.

Quality assurance with reasonable price

### **E. Development of Global and Local Market:**

Nescafé objectives should be entering in new emerging market as the demand will be high in such country which results in the growth of business. So, the main idea is to expand the business not only locally but globally as well and be the first one to reach new market. Nescafe can take advantage of its product differentiation and brand name, so it can be the leading coffee in few years as availability only of few local competitors.

Nescafe is opening its new plant in U. K creating new jobs. While in other hands, Nescafe is opening plant in countries like china, India and Vietnam to strengthen its global plan as these countries have potential to produce raw

material, coffee and the really cheap labour cost which results in the low cost of production and high revenue.

The taxation rate and government policies should be considered before entering new market, even though china is closed economy, China is flexible towards the taxation policy for the new investors and reduced the tax to 15% for the first three year. However, in context of India, government policies are quite flexible towards the foreign investors. Vietnam is emerging country, its open toward the investors.

### **F. Scenario of Currency Market:**

During first half of the year 2011, due to soaring in the Swiss franc and down fall in the American dollar, the Nescafe's sales pushed first half sales down, As the Nescafe is Swiss company, final transaction is converted to Swiss franc.

Even though the U. K has strongest value in the market, the cost associated with the production is also high. Nescafe has to spend more money for the same amount of raw material and operation plant in Britain and relatively less in in India, china or Vietnam. According to exchange rate 1. 497 Swiss franc = 1 British pound whereas 1 Swiss franc = 58. 3121 Indian rupee. So it will cheaper to operate the business in the country with less inflation, where the consumption power will be higher. Thus, Nescafé should produce the product at the country with low currency value and import it to other countries and the exchange rate difference will raise the profit of the company, Thus shift of the company to India, China or Vietnam will be beneficial for the company.