

COFFEE KINGDOM

Growth strategy
Food & beverage

Medium difficulty
Interviewer-led case

This case discusses a new market entry strategy for a leading Italian coffee manufacturer.

The case covers all aspects of the interview scorecard equally.

Problem definition

Our client, Coffee Kingdom, is Italy's leading coffee brand – with a 37% share of the Italian coffee market. They are still processing all their coffee in Italy and importing beans from various regions to blend their different mixes. Coffee Kingdom does not have significant international presence.

The client has always spent heavily on marketing and is known as a trendsetter in the coffee market. They rejuvenated the image of the "Italian Espresso", making it a popular social moment for young people. The client cares very much about being at the forefront of innovation and new trends in the coffee market. When capsule machines took off, they were first to launch their own line.

Coffee Kingdom's processing capacity is 180M kg of coffee beans per year, of which 80% is used to create their roasted beans, ground coffee and capsules. The remaining capacity is currently unused.

Given the saturation of the Italian market and fierce competition from other domestic brands for the business of local espresso bars, the client is currently considering entering new markets. We are working for the client's strategy department, and assisting them in assessing the attractiveness of new markets and deciding which (if any) to enter.

When entering a new market, the client expects to start selling on-trade (i.e., in bars and restaurants) to establish its brands, before selling off-trade (i.e., in retail stores and to businesses).

How would you determine which new market Coffee Kingdom should enter?

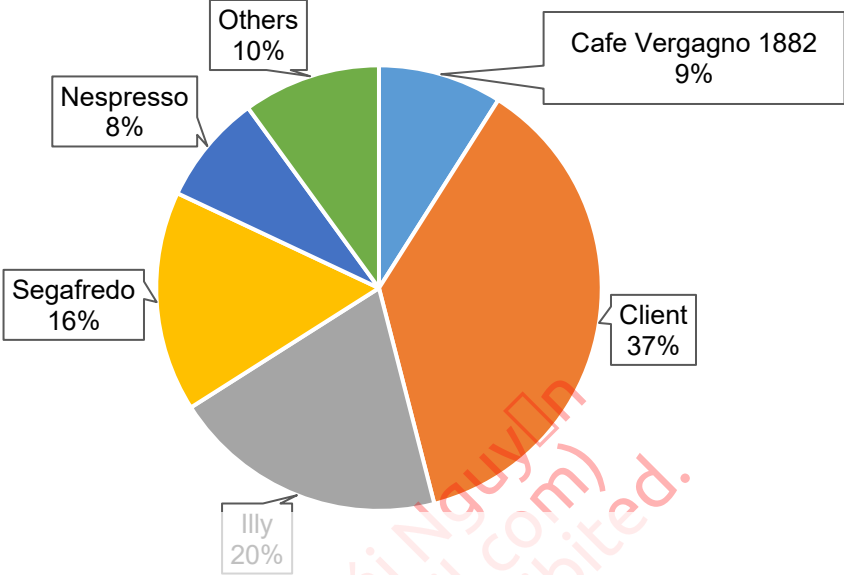
Additional information

If asked, please share that:

- The client's goal is to gain a dominant market position within 3 years in whichever region/segment they decide to enter - "dominant" is defined by the client as > 20% market share
- By 'market', the client is primarily interested in new geographies – though may narrow down to product segments within geographies. The client is only looking to enter *one* new market, not several
- The client would like both to identify the best market to enter and determine whether it should focus on specific segments within such a market
- The Italian coffee market is growing at a rate of 1.6% per year, and is currently ~ \$4.5B in size
- Exhibit 1 can be shared at any point if a candidate is keen to learn more about the relative market share of the client

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Exhibit 1: Italian Coffee Market: Current Market



Question 1 (Structuring)

How would you structure your approach to the question?

Possible answer

1. *Opportunity size*
 - a. *Market size (Population, percent of coffee drinkers, average consumption)*
 - b. *Growth rate (Due to demographic, economic, and aesthetic trends)*
 - c. *Margins*

2. *Potential share*
 - a. *Competitive intensity*
 - b. *Customer tastes*
 - c. *Fit with our brand and products*

3. *Ability to serve*
 - a. *Distance from our factories*
 - b. *Access to on-trade distribution channels*
 - c. *Taxes and duties*
 - d. *Skills required*
 - e. *Manufacturing capacity*

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Question 2 (Numeracy)

The client had gathered the following information on the five most promising markets [share Exhibits 2 and 3].

Looking at these exhibits, which two countries seem to be most attractive, based on the expected market size in 3 years?

Additional information

- Steer candidates to eliminate clear low-priority countries early on, before running a 3-year growth calculation on each
- To simplify, the candidate may skip compounding effects when calculating growth by year

Possible answer

Based on a common-sense check, France and Sweden could be eliminated due to declining growth.

Determine market size: # inhabitants (M persons) x Consumption/capita (kg/person)

- *United Kingdom = 60M persons x 2.8 kg/person ~ 168Mkg, plus 2% growth*
- *Poland = 38M persons x 2.5 kg/person ~ 95Mkg, plus 1% growth*
- *Netherlands = 17M persons x 9 kg/person ~ 153Mkg, plus 5% growth*

Let's eliminate Poland due to being the smallest of the remaining three. Let's then determine the market size in 3 years to see if there's a clear winner.

The Netherlands:

- *Size today ~ 150Mkg*
- *Growth/year (next 3 years) ~ 5% ~ 7.5Mkg*
- *Low-end estimate (not compounding) ~ 150Mkg + 3 x 7.5Mkg = 172.5Mkg ~ 175Mkg*

United Kingdom:

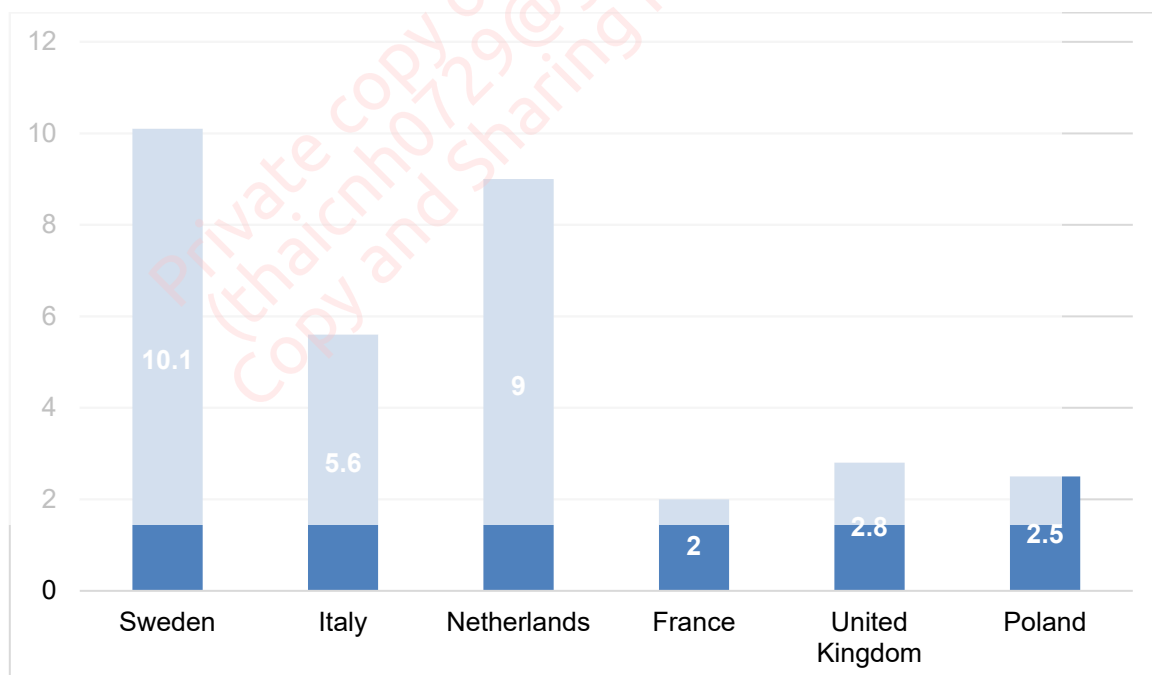
- *Size today 168Mkg*
- *Growth/year (next 3 years) 2% ~ 3.4Mkg*
- *Low-end estimate (not compounding) ~ 168Mkg + 3 x 3.4Mkg = ~ 178Mkg*

Based on this analysis, United Kingdom and The Netherlands are the most attractive countries from a 3-year market size perspective, but I'd like to evaluate more qualitative factors about each market to determine a final priority.

Exhibit 2: Five potential European markets

	Population (Millions)	Expected market growth per annum over next 3 years (MKg)	On-trade distribution
Sweden	10	-1%	Large chains
United Kingdom	60	2%	Large chains
France	65	-5%	Many small independent cafés
Poland	38	1%	Large chains
Netherlands	17	5%	Many small independent cafés

Exhibit 3: Current annual coffee consumption/capita (kg/person)



Question 3 (Judgment and Insights)

Of these two countries, which would you prioritize?

Additional information

- The candidate may use their own external knowledge to support their reasoning

Possible answer

The Netherlands seems like the most attractive option:

- *It offers superior growth rate (5% vs 2%)*
- *Its on-trade distribution is based on independent cafés, which will do a better job of building up our brand than large chains, which typically only carry their own brand*

However, breaking into the Dutch market will require a large local sales force, or a Partnership with another supplier of independent cafes with an existing sales force (e.g., drink vendor).

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Question 4 (Numeracy)

Your colleague has gathered some market data on the types of coffee products in The Netherlands and their relative market share, both now and in 3 years. [Exhibits 4 and 5]

Which market segments would you prioritise for entry, based on this data?

Additional information

- Even if the candidate prioritised United Kingdom, mention that while it's a perfectly reasonable suggestion, the client has prioritised the Netherlands for further consideration.
- If asked, please share that cold brew is the latest trend taking over the coffee drinking world. Cold brew coffee is made by soaking coffee grounds in water overnight. To ride this wave, the client is willing to launch a cold brew dedicated line of business.

Possible answer

Market size Netherlands Now: ~ 150Mkg

Market size Netherlands Year 3: ~ 175Mkg

Illustrative analysis of exhibits:

	Now		Year 3		Growth (~)
	Market share by segment	Segment sizes (Mkg)	Market share by segment	Segment sizes (Mkg)	
Ground coffee	40%	60	15%	26	-50%
Capsules	29%	43.5	50%	87.5	100%
Roasted beans	30%	45	25%	43.75	-3%
Cold brew	1%	1.5	10%	17.5	1000%

Cold brew and capsules are growing segments; together, they have a total potential market size of $87.5\text{Mkg} + 17.5\text{Mkg} = 105\text{Mkg}$ in 3 years with very strong growth rates.

The client's objective to attain a 20% market share within 3 years and has a current capacity of 180Mkg and utilization of 80%. This means $20\% * 180\text{Mkg}$ is free capacity = 36Mkg.

To achieve a market share of 20% in the targeted segments, $20\% * 105\text{Mkg}$ will be needed = 21Mkg.

This means a utilization of: (Current utilization) + (additional utilization) / total capacity

Current utilization = $80\% * 180\text{Mkg} = 144\text{Mkg}$

Additional utilization = 21Mkg

Total capacity = 180Mkg

$(144\text{Mkg} + 21\text{Mkg}) / 180\text{Mkg} = 165\text{Mkg} / 180\text{Mkg} \sim 90\%$

90% utilization is still feasible. However, at the ci
further in the Netherlands is limited, since more than 90% utilization may put stress on the plants and
cause delays.

Alternatively, prioritizing Capsules and Roasted Beans yields a Y3 market of ~130M kg. Capturing 20%
of these markets would require 26M kg, pushing utilization up to 170/180, or ~95%. It may also be harder
to gain market share in a shrinking segment (Roasted Beans) as customers are more likely to already
have brand preferences than in a new category.

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Exhibit 4: Segment by type, Current

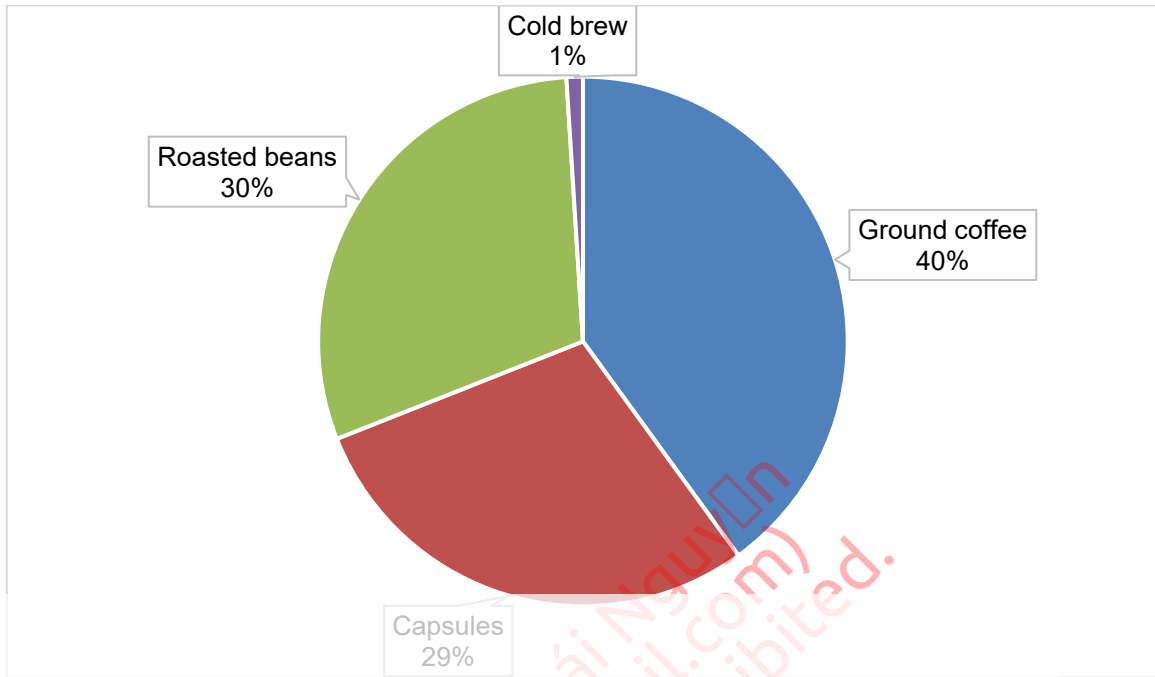
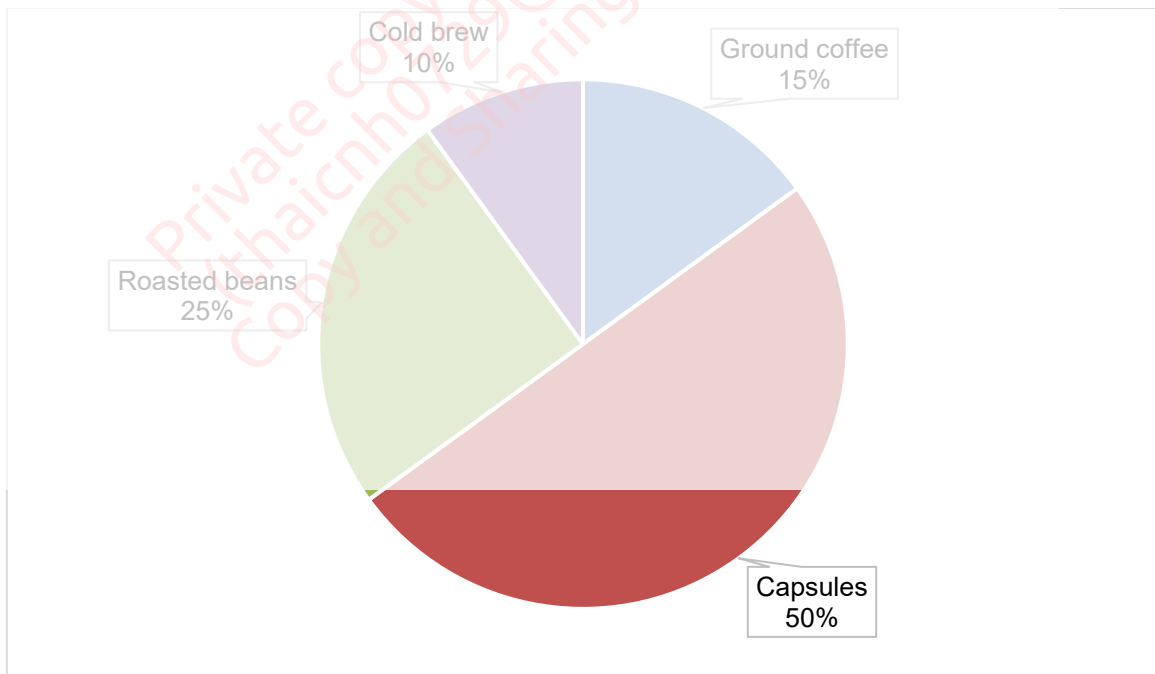


Exhibit 5: Segment by type, Year 3



Question 5 (Creativity)

As part of its growth strategy, and in addition to international expansion, your client is considering brand extension (i.e., using its brand to enter adjacent types of products and services) in its home market.

What brand extension ideas do you have?

Possible answer

1. *Coffee-related accessories*

- a. *Coffee machines*
- b. *Cups & cutlery*

2. *Other hot drinks*

- a. *Chocolate*
- b. *Teas*
- c.

3. *Food*

- a. *Coffee desserts*
- b. *Coffee snacks*

4. *Hospitality*

- a. *Cafe chain*
- b. *Catering*
- c. *Hotels*

5. *Lifestyle*

- a. *Clothing*
- b. *Perfume*

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Question 5 (Synthesis)

Based on the information you have reviewed, how would you advise Coffee Kingdom?

Possible answer

Coffee Kingdom wanted to know which market they should enter next in order to find higher growth than they will experience in their core Italian market.

Based on the current analysis, I recommend that Coffee Kingdom enters the Dutch coffee market, specifically within the capsules and cold brew segments. My reasons for this are:

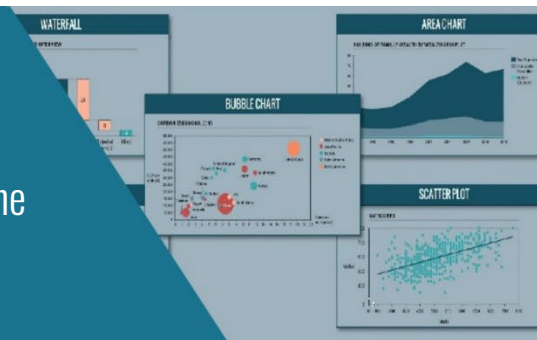
- *The Netherlands has the fastest growing coffee market at 5%, and a large market size compared to the other countries considered.*
- *Capsules and cold brew are growing very quickly, and cold brew is a unique opportunity for an innovative company like Coffee Kingdom.*
- *The additional product volume required to meet the client's target 20% market share within 3 years is within Coffee Kingdom's current production capacity of 180Mkg.*

In addition, we believe there are many brand-extension opportunities for the company in its home market, including launching a range of coffee desserts and snacks, and their own chain of cafes.

In terms of next steps, we would like to look at the efforts required for entering the Dutch market, and prioritize brand extensions opportunities.

Puzzled by some case interview charts?

Practice on your own with the Exhibit Drills in the Interview Prep Course



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