

## **Business Case: NESPRESSO**

Agullo's Tea Capsules (ATC) is a Company founded 7 years ago in the UK that created a new concept of teas sold in capsules. ATC sold tea capsules of different flavors and tea-in-capsules-making devices so that consumers could enjoy a high quality tea with the minimum hassle, making tea preparation quick and clean. Both the devices and the capsules were sold only in exclusive own stores that took relevant locations in the main UK cities. The brand was positioned as high-end, highlighting quality above all other attributes. It was more costly than regular tea bags, but less than a tea in a tea shop, extremely popular in the country.

The product was extremely successful in the initial years as it became very popular among middle and upper class families. These customers valued the high quality of the teas, the catalogue of flavors (not too long, but very high quality and with new flavors added all the time) and the convenience in its usage and maintenance.

ATC had a 5-year patent on the capsule system (devices and capsules) which allowed it to capture the entire market for tea capsules. Competitors could not sell either devices or capsules. Given that selling the devices granted them a customer for a few years and all their business, ATC subsidized partly the price of the devices, as it was enjoying a short payback (all capsules were bought at ATC and the margin was enough to compensate for the subsidy).

ATC launched regular campaigns on TV and other media, both national and regional, both online and offline, presenting new capsules and devices, and reinforcing the high-quality value proposition.

ATC decided that customers could only buy devices and capsules if they became members of the ATC Club. Customers signed up, providing some basic profile information on their household (number of members and number of times that they had tea on a typical week) and their contact information (which included email and cell/landline phone). Any time that these customers went to the store, they had to identify themselves to the store clerk.

ATC launched weekly campaigns to their customers. All of them received offers and announcements, both on capsules and new devices, through email and cell phone push. A small but relevant proportion of customers received telemarketing campaigns with exclusive promotions (also on devices and capsules). These campaigns were not segmented and target audiences were selected using basic criteria. Nonetheless, open rates and conversion rates were reasonably high.

Over the initial years, ATC opened new stores throughout the country to reach wider audiences. It also launched the online store to make it easier for customers living far away from their stores to receive the capsules directly at home by mail. All these stores and the online channel were also successful from a business and operational perspective. So far the criteria to open stores has been city population. When ATC was the only player in the market, they opened stores to the point that the last openings were barely profitable.

After the first 5 years, and seeing the huge success of the business, new competitors entered the market. Some competitors focused on the tea capsule market only, developing capsules that were compatible with ATC devices. Others developed both devices and capsules. These new competitors (both partial and total competitors) pursued different marketing and distribution strategies. They all had a lower cost per capsule (to a greater or lower degree) and they all sold through third party

retailers, not building their own channel, as ATC did. Their marketing approach was based more on convenience and lower price.

As a result, the sales of ATC capsules started to decline gradually. Some customers stopped buying capsules completely and some others reduced the frequency of their purchases. This fact occurred both with lifelong customers but also with new customers, that 'churn' after the first weeks. Over time, competitors are getting better at quality and the trend is not stopping. The sales of the devices has also fallen since the market 'liberalized' 2 years ago. The same trend applies to devices, where market share has fallen to the new entrants.

ATC Management is concerned about this trend and would like to explore the potential that analytics and big data can offer to their company to improve overall results.

You are working for XYZ Analytical Consulting and you have been provided with this briefing to prepare a meeting with ATC Management. You are preparing a document to define the proposal. The partner at XYZ Analytical Consulting would like to see your ideas to think about the meeting and agree on the proposal.

## **Questions:**

What analytical---based projects could improve results for ATC? You are expected to describe two proposals. Select the two projects that you expect that could produce the biggest results in terms of overall net margin and that are viable with the data that is (presumably) available. You can make (reasonable) assumptions on information that is not in the case to condition your reply.

Each project description should contain the main elements of an analytics---based proposal (goals, data, methodology, expected results, integration with business, among other relevant aspects).