CASE

Nestlé Italy

Giorgio Baruffa, Product Manager for Nescafé instant coffee at Nestlé Italy, was considering options for the future marketing strategy of the brand. Nescafé had been marketed in Italy for 30 years but held less than a 1 percent share of the Italian coffee market. In a recent single city test, Nescafé had experimented with a 14 percent price decrease with the objective of increasing market share. The price reduction increased short-term sales volume by 25 percent, but did not have a sustained impact on market share and weakened user and nonuser perceptions of Nescafé's quality and reliability.

Mr. Bechi, Marketing Director of Nestlé Italy, and Mr. Baruffa called a meeting in March 1989 to discuss Nescafé's strategic options. The group—which included Mr. Mazzei, the Chief Financial Officer, Mr. Giuliani, head of strategic planning, and Mr. Baruffa's brand assistant—had to decide whether Nescafé should aim to penetrate further its current target market or seek out one or more new target groups.

COMPANY BACKGROUND

Nestlé was founded in Switzerland in 1866 to process dairy products. Nestlé became well known as a manufacturer of infant feeding formulas, developing successful products such as Nestlé Powdered Milk and Condensed Milk. The company grew through new product introductions and acquisitions of other companies, both inside and outside the food industry. By 1988, Nestlé S.A. generated revenues of $20 billion. It had 160,000 employees working in 200 plants worldwide. Decision-making responsibility was decentralized to ensure that the operating unit in each country responded to local market conditions. Nestlé competed worldwide in a variety of product groups including:

- Chocolate, with the Gala and Frigor brands
- Instant coffee, with the Taster's Choice and Nescafé brands
- Instant beverages, with the Nesquick (or Quik) and Orzoro brands
- Soups and bouillon cubes, with the Maggi brand
- Preserves and fruit juices
- Pharmaceuticals and cosmetics, with the L'Oreal line

Nestlé was the world's largest buyer of raw coffee beans and a major producer of instant coffee. In the 1930s, when raw coffee supply exceeded demand, Nestlé re-

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Professor John A. Quelch prepared this case in association with Michele Costabile, SDA Bocconi, Italy, as the basis for class discussion rather than to illustrate either effective or ineffective handling of an administrative situation.

searchers perfected a dehydration process to preserve coffee in a concentrated and soluble form while maintaining its flavor and aroma. The Nescafé brand of instant coffee was launched in 1938 just before World War II. It was adopted by the armed forces due to its convenience and ease of use. Instant coffee quickly gained worldwide acceptance. By 1988, the world drank more than 170 million cups of Nescafé a day. In 1988, Nestlé's advertising budget to promote Nescafé worldwide was $312 million.

Nestlé Italy, a Milan-based company, sold over 80 products in 10 categories and generated about $1 billion in sales in 1988. Nestlé Italy was the share leader in milk modifiers (with Nesquick) and instant coffee. In Italy, Nescafé was offered in three blends: Nescafé Classic, Nescafé Gran Aroma (a stronger, premium quality coffee), and Nescafé Relax (a decaffeinated coffee). Nescafé contributed 3 percent of Nestlé Italy revenues and 7 percent of net profits in 1988. Nescafé accounted for 5 percent of Nestlé Italy's total advertising expenditures and 2 percent of total consumer and trade promotion expenditures.

COFFEE CONSUMPTION IN ITALY

The Arabs discovered the process of roasting coffee beans at the end of the fourteenth century. Since then, coffee had been consumed both in the home and in public as a social beverage. From the eighteenth century, coffeehouses in Europe were patronized by intellectuals who used the stimulus of the aromatic beverage to sustain their poetic or political dissertation. In Italy, coffeehouses were once called "schools of knowledge."

The range of blends, degree of roasting, methods of preparation, and reasons for coffee consumption varied widely across countries. Different consumer segments viewed coffee as a stimulant, as a thirst quencher, or, when mixed with a small amount of water, as an elixir.

In 1988, the highest per capita coffee consumption was in Scandinavia at 12 kg., followed by the Netherlands (9), Germany (7), France (6), United States (4.6), Italy (4.3), United Kingdom (2), Greece (2), and Spain (2). The Italian instant coffee market was comparatively underdeveloped. In Italy, instant coffee accounted for 1 percent of total coffee consumption in 1988 versus 8 percent in the Netherlands, 10 percent in Germany, 30 percent in France, 34 percent in the United States, 37 percent in Spain, 51 percent in Greece, and over 90 percent in the United Kingdom and Ireland.

Nestlé executives identified several consumer trends that could affect the consumption and marketing of coffee in Italy. These included:

- An increase in adult women in the work force to over 30 percent in 1988. This resulted in more food consumption outside the home and increased purchases of ready-to-eat, frozen, and other convenience foods.
- Increased international travel, both into and out of the country, which exposed Italians to the food consumption habits of other cultures.
- Lower birthrates and longer life spans, causing an aging of the population and a reduction in average household size. The number of Italians over 55 years was expected to increase to 31 percent of the population by 1997. The average disposable income of this group was also rising significantly.
- A greater awareness of health issues in the diet. As a result, there was increased interest in consumption of fresh, authentic products, especially among

TABLE A

Coffee Consumption in Italy

Age	*% Who Usually Drink Coffee*	*Average Annual per Capita Consumption (kg)*	*% of Total Consumption*	*% of Italian Population*[a]
15–24	50	3.04	12.4	16.5
25–34	70	4.36	20.5	14.2
34–45	81	4.60	23.0	13.1.
45–54	83	4.90	24.0	12.6
55–69	67	3.13	15.1	15.6
70+	60	1.86	5.0	9.7

[a]18.3% of the population was under 15 years in 1988.

better-educated young people. For example, fruit and vegetable consumption increased 12 percent from 1986 to 1988. Similarly, nonalcoholic beverage con sumption increased by over 30 percent between 1983 and 1988, with mineral water up 35 percent soft drinks up 32 percent, and fruit juices up 40 percent.

Many younger, more health-conscious Italian consumers perceived coffee as an unhealthy beverage. In 1988, the highest level of coffee consumption was among the 45–54 age group, as shown in Table A.

INDUSTRY STRUCTURE AND COMPETITION

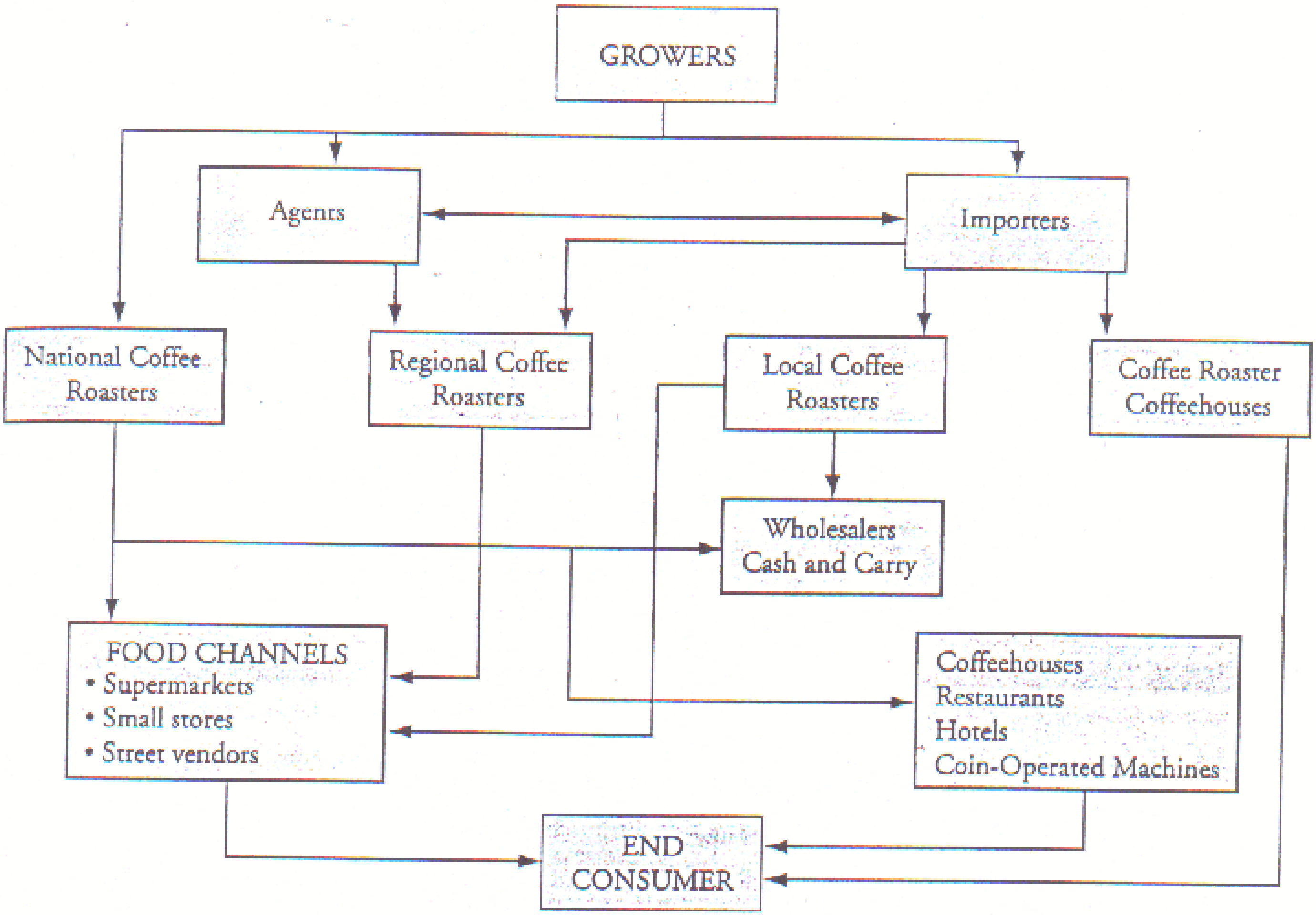
The structure of the Italian coffee market is shown in chart form in Exhibit 1. Around 750 firms produced their own blends of roast and ground coffee, buying raw coffee beans either directly from growers or, in the case of the smaller producers, from importers or agents. The coffee roasters sold their blends through retailers to the end consumer (the "family segment") and/or through coffeehouses, restaurants, and other institutional outlets (the "CHR segment"). As shown in Exhibit 2, the CHR segment accounted for 31 percent of the coffee volume consumed in Italy in 1988 but 80 percent of the associated consumer expenditures. Consumption of instant and decaffeinated coffee was minimal. The total volume of coffee consumed was expected to grow 2 percent annually.

Factory sales of coffee in Italy in 1988 approached 1,700 billion lire, as indicated in Exhibit 3.[1] Low entry barriers, regional taste preferences, minimal overheads, and entrenched distribution explained the continued survival of many small coffee roasters each serving a town or a region. However, the combined market share of the national producers was increasing. In 1988, the top four national coffee roasters controlled 42 percent of the market, while the next four companies accounted for a further 10 percent. They enjoyed the efficiencies of national advertising and distribution, quantity discounts when purchasing coffee beans on the world market, and greater negotiating power with the trade. They tended to offer more complete product lines than the smaller and medium-sized producers and to initiate packaging innovations such as the vacuum pack. Exhibit 4 summarizes the retail penetration by type of

[1] In 1988, $1 was equivalent to 1,500 lira.

EXHIBIT 1

The Structure of the Italian Coffee Market



channel and number of items stocked per outlet for the major producers. Exhibit 5 plots the principal competitors on two strategic maps.

With industry consolidation, advertising expenditures on brands of coffee more than doubled between 1985 and 1988, as indicated in Exhibit 6. Likewise, the advertising-to-sales ratios of most major producers also rose, as shown in Exhibit 7.

The principal competitors in the Italian coffee market were as follows:

Lavazza S.p.A., a family-owned company based in Turin, held the largest share of the coffee market, and was the tenth largest food company in Italy. Lavazza was the only company to offer a complete line of nationally distributed products. Lavazza offered 11 brands and blends at different price-quality points but all advertised under the Lavazza umbrella. One of these brands was Bourbon roast and ground, which until 1987, was owned by Nestlé.

Lavazza accounted for 40 percent of coffee advertising in Italy. A well-known television advertisement involved a testimonial by an Italian actor, which reaffirmed the "Italian" quality of Lavazza coffee and concluded with the selling line, "the more

EXHIBIT 2

Italian Coffee Market, 1988 Retail Sales (In Thousands of Tons and Billion Lire)

	Family Segment				*CHR Segment*				*Total*			
	Volume (000 tons)	*Percent*	*Value (billion lire)*	*Percent*	*Volume (000 tons)*	*Percent*	*Value (billion lire)*	*Percent*	*Volume (000 tons)*	*Percent*	*Value (billion lire)*	*Percent*
Normal	144.9	69%	2,105	20%	65.1	31%	8,267	80%	210.0	97%	10,372	95%
Decaf	2.9	58	48	10	2.2	42	410	90	5.1	2	457	4
Instant	0.7	88	69	49	0.1	12	72	51	0.8	1	141	1
Total	148.5	69%	2,222	20%	67.4	31%	8,749	80%	215.9	100%	10,970	100%

Note: "Normal" refers to regular roast and ground coffee. "Instant" includes decaffeinated instant.

EXHIBIT 3

A. Roast and Ground Coffee: Italian Market Shares of Main Producers by Segment, 1988

	Family Segment				*CHR Segment*			
	Quantity (000 tons)		*Factory Prices (billion lire)*		*Quantity (000 tons)*		*Factory Prices (billion lire)*	
Lavazza	42.0	30.7%	405	34.6%	3.0	6.5%	35	6.7%
Procter & Gamble	12.3	9.0	108	9.2	-	-	-	-
Café do Brasil	10.2	7.4	83	7.1	0.5	1.1	4	0.8
Illy Caffé	0.4	0.3	6	0.5	1.5	3.2	30	5.7
Segafredo	4.4	3.2	37	3.2	4.3	9.4	45	8.5
Sao Café	7.0	5.1	58	5.0	-	-	-	-
Total Market	137		1,170		45.7		520	

B. Instant Coffee: Italian Market Shares of Main Producers, 1988

	Quantity (tons)	*Percent*	*Value (billion lire)*	*Percent*
Nestlé	650	77.7%	35	80.0%
Crippa & Berger	110	13.1	7	15.9
Others	76	9.2	2	4.1
Total Market	836	100.0%	44	100.0%

you push it down, the more it pulls you up!" The company also sponsored the 1988 World Cup Ski Championships in an effort to present a more youthful image.

Segafredo-Zanetti, S.p.A., of Bologna produced roast and ground coffee and was the first company to introduce a combination pack of two 250-gram vacuum-packed bags of coffee for the family segment. Previously, Segafredo had sold only in the CHR segment for which it also produced espresso machines sold under the Segafredo name. The company's communications program concentrated on sponsorships of national and international sporting events.

EXHIBIT 4

Retail Penetration and Average Number of SKUs (Stockkeeping Units) by Channel for Principal Coffee Brands, October 1988

	Hypermarkets		*Supermarkets*		*Convenience Stores*	
Lavazza	100.0%	12.2	100.0%	11.1	95.5%	10.9
Procter & Gamble	100.0	5.9	94.6	5.9	95.5	4.7
Nestlé	100.0	5.7	100.0	7.2	100.0	6.1
Crippa & Berger	100.0	5.5	100.0	5.4	95.5	3.6
Café do Brasil	30.4	2.2	8.9	3.0	25.5	1.5
Illy Caffé	10.5	2.0	15.7	2.0	5.5	1.0
Segafredo	69.6	3.9	60.7	3.9	9.1	2.0
Sao Café	69.6	4.5	70.5	4.5	40.5	3.0

EXHIBIT 5

Italian Coffee Market Strategic Groups

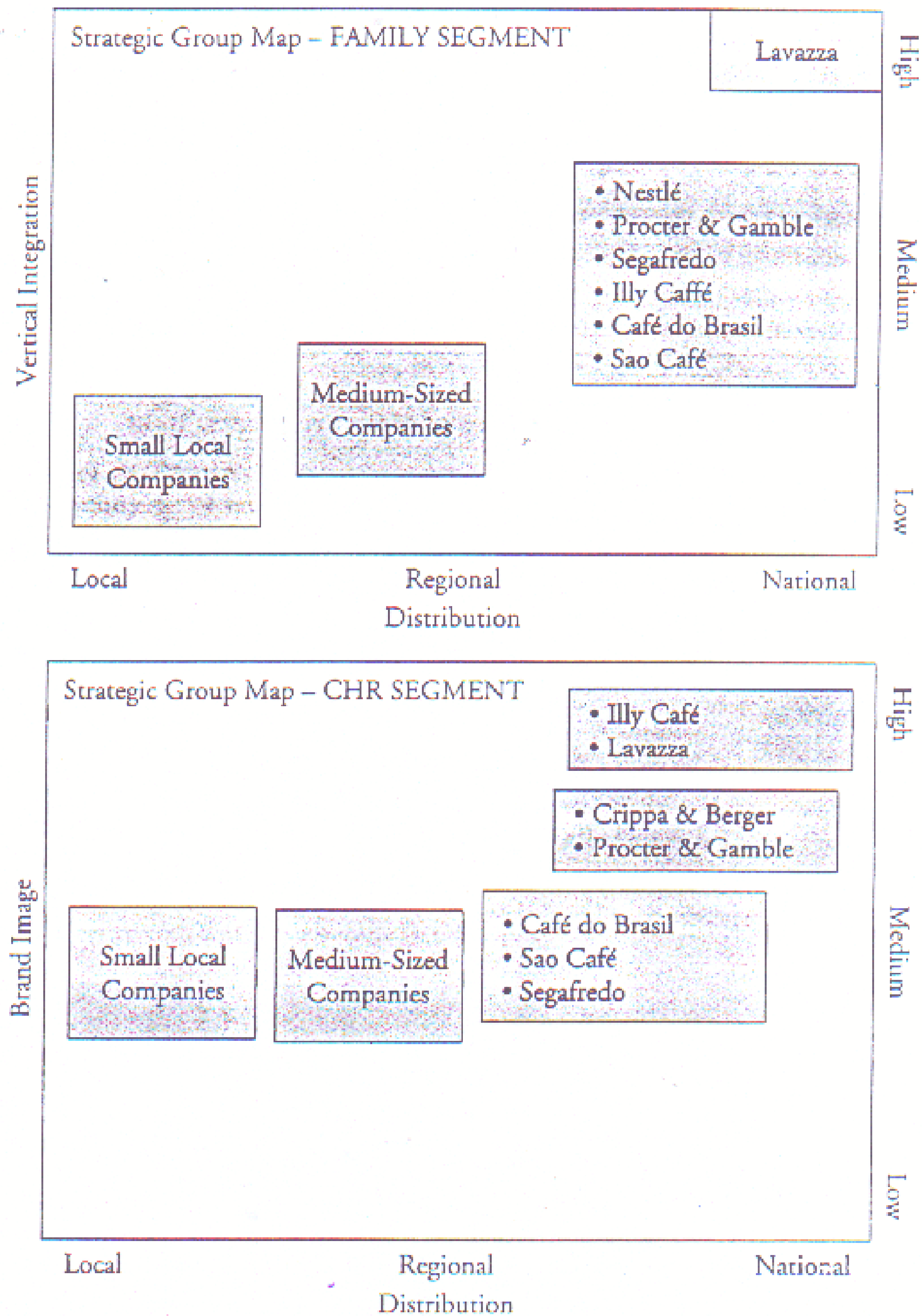


EXHIBIT 6

Roast and Ground Coffee: Percentages of Total Media Advertising Expenditures in Italy of Major Producers, 1985–1988

Company	*1985*	*1986*	*1987*	*1988*
Lavazza	36%	46%	34%	40%
Procter & Gamble	24	24	27	20
Nestlé	14	12	-	-
Café do Brasil	-	7	11	14
Illy Caffé	3	4	7	6
Segafredo-Zanetti	1	-	5	7
Sao Café	9	3	4	1
Mauro	3	4	5	6
Altri	10	-	6	6
Total (%)	100%	100%	100%	100%
Billions of lire	48	68	85	129

Source: Company records and AGB.

Note: Nestlé sold its brand of roast and ground coffee in 1987.

Crippa and Berger of Milan was the first company to market decaffeinated coffee in Italy. This company competed directly with Nestlé through its own brand of instant coffee, Faemino. Crippa and Berger's other brands were Gah (low caffeine and low fat) and Hag, which held 65 percent of the decaffeinated market compared to 27 percent for Lavazza's decaffeinated brand.

C&B invested 28 percent of sales in advertising in 1988, two-thirds of which was spent on promoting Hag. The advertising was aimed at justifying the premium price of the Hag brand to both the family and the CHR segments. The company did not support Faemino with significant advertising.

Procter and Gamble Italia, a subsidiary of the Cincinnati-based company, marketed the Splendid brand. Distribution penetration was excellent thanks to the coverage achieved by P&G's sales force in marketing the company's broad product line. Splendid was promoted through sponsored television programs with high viewer ratings.

In 1988, Splendid Decaffeinato was introduced and allocated an advertising budget of $15 million, more than that for Splendid roast and ground. In 1988, P&G increased its advertising-to-sales ratio to 37 percent compared to 8.5 percent for the category as a whole. Splendid Oro and Classic were advertised as the coffees used in the most prestigious restaurants, while Decaffeinato was targeted at large families.

Illy Caffé of Trieste produced a single blend of ground coffee with seven different levels of roasting. Illy Caffé was known for its excellent quality and also marketed a line of decaffeinated and low caffeine coffees under the Mite brand name. Illy advertising emphasized the brand's comparative superiority. "The best, maestro," was the answer of an American patron in an Italian coffeeshop when asked his judgment of Illy coffee.

Consorzio Sao Caffé was a consortium of eight local producers formed in 1973 to pool their resources behind a single brand. The consortium advertised its Sao brand on the basis of the quality implied by its Brazilian-sounding name.

EXHIBIT 7

Coffee: Advertising Expenditures as a Percentage of Sales for Major Italian Coffee Brands, 1986–1988

	Advertising Investments (billions of lire)			*Advertising as Percentage of Total Sales*		
Company	*1986*	*1987*	*1988*	*1986*	*1987*	*1988*
Lavazza	40.0	34.0	62.0	6.6%	6.8%	11.8%
Procter & Gamble	16.0	22.6	40.4	10.2	18.3	36.6
Nestlé	16.8	7.4	4.3	17.7	9.1	5.9
Crippa & Berger	6.0	7.6	13.2	9.2	15.2	28.1
Café do Brasil	5.0	9.4	18.0	4.8	10.1	20.0
Illy Caffé	3.0	6.0	7.4	8.4	15.9	16.8
Segafredo	-	4.3	9.5	NS	4.6	9.0
Sao Café	2.0	3.5	1.3	2.3	5.2	2.2
Mauro	3.0	4.3	7.6	6.0	10.5	22.4

Source: Company records and AGB.

Note: Data included expenditures in support of decaffeinated and instant coffees as well as roast and ground.

Breakdown of Advertising by Product Type for Three Major Producers, 1988

Lavazza	17.4% Decaf
	82.6% Roast and Ground
Nestlé	9.5% Decaf
	90.5% Regular and Instant
Crippa & Berger	68.7% Decaf (HAG)
	31.3% Roast and Ground

Café do Brasil marketed Café Kimbo, a brand favored in southern Italy. Café Kimbo had gained market share rapidly as a result of competitive pricing and memorable advertising. In its television commercial, a well-known anchorperson tasted the coffee in a roasting plant and emphasized the freshness and rich taste of the Kimbo brand.

MARKETING COFFEE

Most of the national brands offered the consumer several blends in a variety of packages. Some producers bought instant and/or decaffeinated coffee from other firms to sell under their own brand names.

During most of the 1980s, a worldwide surplus of coffee beans depressed raw material prices. The consequent cost savings enabled producers to offer higher-quality blends without increasing retail prices. By 1988, 4 million Italian households made coffee at home with restaurant-style espresso machines, and they were particularly interested in premium quality blends.

The major brands were distributed through both the family and CHR segments. It was hard for producers to ensure that coffee served in coffeehouses was identified by brand. However, because many consumers believed that coffee made in a coffeehouse was better than that made at home, a strong brand presence in the CHR segment could help a brand's retail image.

Retailers selected coffees to stock on the basis of brand reputation, margin, and turnover, periodic trade discounts and "three-for-two" consumer promotions. For CHR operators, brand name was less important than consistent quality at a competitive price and, for smaller outlets, the leasing and servicing of espresso machines.

Coffee was sold to the family segment in 200- to 250-gram bags (49 percent volume share), 400- to 500-gram bags (38 percent), 500 gram tins (4 percent) and 1-kg. bags (9 percent). Pliable bags replaced tins in the 1980s as the principal form of packaging. Vacuum-sealed packages with double wrapping were introduced by the leading producers in 1985 to extend the shelf life of ground coffee. Instant coffee including Nescafé was available in small glass jars containing 50 to 125 grams. Research showed that Nescafé's glass jar, large lid, and granular appearance were not associated with "real" coffee.

Details of the cost structures for roast and ground coffee, Nescafé instant coffee, and espresso sold through CHR outlets are presented in Exhibit 8. The average producer price of a kilo of roasted coffee in 1988 was 10,400 lira (including a 6 percent government tax). A kilo of decaffeinated coffee sold for 30,000 lira and a kilo of instant coffee, which produced four times as many servings as the equivalent weight of roast and ground, cost 51,000 lira.

CHR operators paid producers, on average, 18,000 lira (including government tax) for a kilo of roast and ground. The end consumer paid seven to eight times this cost, or 800–900 lira for a cup of espresso coffee using six grams.

EXHIBIT 8

Cost Structures for Roast and Ground Coffee, Nescafé, and Espresso in 1988 (Lire)

	Roast and Ground 250 Gram	*Nescafé 125 Gram*	*Espresso (CHR) 6 Gram*
Suggested retailer selling price	3,250	7,500	800
Producer selling price	2,600	6,375	111
Cost of goods sold	2,150	3,160	80
• Manufacturing	1, 490	2,810	56
• Distribution	660	350	24
Contribution margin	450	3,215	31
Sales promotion	45	374	0.3
• Trade	10	250	0.3
• Consumer	35	124	-
Advertising	30	426	0.5
Contribution after marketing expenses	375	2,415	30

NESCAFÉ MARKETING IN ITALY

The flavor of Nescafé in Italy was different from that of Nescafé in other European countries. The roasting and solubilization processes and the raw materials used were specifically adapted to Italian consumer tastes. However, during the 40 years following its launch in Italy in 1938, Nescafé sales grew slowly to only 400 tons by 1978.

Nestlé's main objective when it launched Nescafé was to have the product, although soluble, perceived as "real" coffee. From the outset, Nestlé executives had to combat consumer doubts that a coffee that was easy to prepare could be as good as "real" coffee. Italian consumers aged over 40 perceived Italian espresso as the only "real" coffee flavor and taste, while younger consumers tended to view espresso coffee, like tobacco and alcohol, as "old-fashioned." There was, therefore, a market opportunity for a lighter, good-tasting, and more aromatic coffee. Nescafé advertising aimed to affirm the good taste and quality of Nescafé compared to other Italian coffee. A typical advertisement in the 1970s was, "Hmm, what is it, . . . what's happening . . . smell coffee . . . Nescafé the best of them all." However, most consumers found this direct comparison to "real" coffee unconvincing. Many consumers continued to believe that Nescafé was "missing something" and was no substitute for "real" coffee. Nescafé was viewed as a back-up product for emergency use and best suited for singles and older people.

Image-tracking studies between 1978 and 1988 showed that Nescafé users and nonusers perceived both taste and flavor improvements. However, as indicated in Exhibit 9, Nescafé was often seen as a coffee used by lonely and/or lazy people. From 1979 to 1983, Nescafé tried a more "personal" advertising campaign, which did not focus solely on the product but, rather, showed "typical" people in the work force (a forest ranger, a dockworker, and a train conductor) enjoying Nescafé. The campaign aimed to show that Nescafé was for anyone who "wants something more out of life" and "gives something more to it." A print advertisement from the campaign is presented in Exhibit 10. The advertising campaign was reinforced with sampling programs and displays at the point of purchase.

EXHIBIT 9

Selected Results of Nescafé Image Tracking Study, 1978–1988

	Total Italy				*Total Nescafé Users*			
	1978	*1981*	*1985*	*1988*	*1978*	*1981*	*1985*	*1988*
Nescafé has:								
- a good taste	2.2	2.3	2.5	2.6	2.4	3.1	3.4	3.6
- no flavor	3.4	3.6	3.0	3.0	3.3	3.1	2.4	2.2
Nescafé is:								
- a sad product	3.2	2.9	2.6	2.7	3.0	2.2	1.9	1.7
- coffee with other ingredients	2.9	2.8	2.6	2.5	3.4	4.1	4.2	4.3
- convenient	3.1	3.1	3.2	3.2	3.4	4.1	4.2	4.3
- for lonely people	2.9	2.8	2.9	2.7	3.1	3.4	3.3	3.3
- for lazy people	3.5	3.7	3.5	3.6	3.5	3.5	3.3	3.6

Key: 5 - agree; 1 - disagree.

EXHIBIT 10

Nescafe Print Advertisement, 1980

Despite this effort, the annual tracking study did not show dramatic improvements in the brand's image. Nescafé continued to be widely viewed as inappropriate for those who wanted "gratification" or "a recharge" from their coffee. Nonetheless, sales exceeded 500 tons by 1983.

From 1984 to 1986, a Nescafé advertisement developed in France was also used in Italy. This execution portrayed an exotic train journey interspersed with images of locations where coffee was grown. The ad supported Nescafé's quality claims by highlighting Nescafé's origins without using direct comparisons to traditional Italian coffee. Nescafé's 1985 image-tracking study showed that the brand had gained in perceived quality and reliability. Sales volume increased to 580 tons in 1986 and to 650 tons in 1988.

The results of a 1987 study involving one-on-one interviews with Italian coffee drinkers are reported in Exhibit 11. The study showed that Nescafé's share of usage occasions was greatest among older people who were more sensitive to caffeine. Those aged 55 and over represented 80 percent of Nescafé's consumers, yet their average per capita consumption of Nescafé did not exceed one cup per day. Nescafé was preferred for its ease of preparation during moments of relaxation at home and for its less "aggressive" image. Awareness-tracking studies, reported in Exhibit 12, showed Nescafé brand awareness had reached 83 percent of consumers by 1988. However, despite good distribution, Nescafé's household penetration was only 14 percent. Nescafé sales were disproportionately high in the larger northern Italian cities, as indicated in Exhibit 13, where consumers preferred sweeter blends. Exhibit 14 summarizes the conclusions of a 1988 focus group that asked consumers to compare Nescafé as a milk modifier with mocha coffee.

EXHIBIT 11

Results of Coffee Motivation Study, 1987

- A majority of respondents agreed with the following statements:
  —"Espresso is true coffee."
  —"Nescafé is not as strong as normal coffee."
  —"Espresso coffee is strong, flavorful, and aromatic."
  —"Nescafé is not a real coffee."
  —"Nescafé is easier to handle."
  —"Nescafé is used only in 'emergencies.' "
  —"Nescafé is for older people."
- Nescafé was regarded as "easy to make," especially by Nescafé users. Nonusers more often agreed that "preparing a pot of coffee is not a waste of time."
- "Coffee, tobacco, and alcohol" were commonly regarded by young people as health risks.
- Two-thirds of Nescafé drinkers preferred to consume it with meals or in the afternoon. The remaining one-third used it primarily as a "milk modifier" in the morning.
- The three different formulations of Nescafé were easily distinguished by users.
- Forty-three percent of consumers considered Nescafé "lighter" than an espresso or "mocha" coffee, 20 percent considered it equivalent on this dimension, and 37 percent had no opinion.

EXHIBIT 12

Results of Nescafé Brand Awareness Study, 1978–1988

Base - 100 respondents	*1978*	*1981*	*1985*	*1988*
Have heard of Nescafé	73%	71%	74%	83%
Have tried Nescafé	29%	33%	38%	39%
Have not tried Nescafé	44%	38%	36%	44%
Have tried Nescafé in past three months	9%	12%	13%	14%
User habits within past three months				
Strong	33%	37%	41%	45%
Average	34%	28%	24%	24%
Weak	33%	36%	35%	31%

Key: Strong = every day or nearly every day; Average = one to three times a week; Weak = within three months.

CONCLUSION

Nescafé needed a revised marketing plan to increase sales. Nescafé already enjoyed excellent distribution penetration, and additional manufacturing capacity was available.

At the management meeting, Mr. Baruffa laid out four options for Nescafé:

1. Focus further on older consumers, already heavy users of Nescafé.
2. Broaden Nescafé's positioning to include its use as a milk modifier, particularly use of Nescafé Classic as a morning beverage with milk.
3. Target younger and more "cosmopolitan" professionals, positioning Nescafé (particularly Gran Aroma) as an international coffee beverage.
4. Try to penetrate the CHR segment of the market.

Mr. Baruffa argued that the first option was the least attractive. He believed that per capita coffee consumption among older consumers could not be increased significantly, though demographic trends indicated that the segment would grow as a percentage of the total Italian population.

EXHIBIT 13

Nescafé versus Roast and Ground Coffee Consumption in Major Italian Cities

	% of Italian Population	*% of Total Italian Roast and Ground Consumption*	*% of Total Italian Nescafé Consumption*
Rome	7.0%	9.1%	4.2%
Milan	4.0	5.7	29.5
Turin	2.5	3.1	5.1
Naples	3.2	4.2	0.9
Bologna	2.2	2.7	2.4
Florence	1.8	1.9	2.7
Palermo	1.6	1.8	0.7

EXHIBIT 14

Conclusions of 1988 Focus Group Comparing Nescafé as a Milk Modifier with Mocha/Espresso

Convenience	
Nescafé user:	Convenience is one of the most important attributes of Nescafé—it's the easiest way to have milk and coffee.
Nescafé nonuser:	Those who drink mocha coffee do not consider it inconvenient to prepare.
Concentration of Coffee Flavor	
Nescafé user:	Both flavor and taste are excellent; the foamy consistency when mixed with milk is closer to cappuccino than normal milk and coffee.
Nescafé nonuser:	Both flavor and taste are good; but why drink Nescafé when one can have mocha and milk?
Caffeine and Stimulating Capability	
Nescafé user:	Nescafé is less stimulating than espresso, but caffeine is not a priority.
Nescafé nonuser:	Espresso drinkers want a level of stimulation from coffee that Nescafé does not provide.

Mr. Bechi shifted discussion to the second option. He believed that "youngsters should be the target audience for the next five years." He was concerned about positioning Nescafé as a milk modifier due to Nestlé Italy's leadership in that category with Nesquick and Orzoro. He warned the group about cannibalization and the likely concerns of the milk modifier brand managers.

However, Mr. Baruffa emphasized that younger people's more open-minded attitude toward Nescafé was an important opportunity. Could Nescafé be presented to young people as both a milk modifier and a "new, less-caffeinated alternative to regular coffee."

Mr. Mazzei, the CFO, discouraged further emphasis on the CHR segment. He argued that the trade promotion investment to secure extra distribution would not pay back. He also believed consumers were less likely to switch from espresso or "real" coffee to Nescafé in coffeehouses and restaurants.

Mr. Giuliani argued that Nescafé should be positioned as an international coffee, not as an Italian coffee, to cosmopolitan consumers who populated the larger northern Italian cities. He believed that there was a growing "transnational consumer" segment comprising sophisticated, well-traveled consumers who were developing "universal" consumption habits and who were attracted to international brands, even in food products.