

DELTA Q
A BRAND EXTENSION TO COMPETE IN A NEW
SEGMENT

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ABSTRACT

This case study is about Delta Cafés, it was developed to better understand how the company responded to coffee industry changes and its ability to suit to new market trends and consumer habits.

Delta Café is a Portuguese company with more than 50 years old. It is a love brand and the coffee market leader in Portugal for several consecutive years, building strong relationships with its suppliers and customers and offering high quality products.

In 2003, Nespresso entered in Portugal presenting a new way of drinking a perfect espresso coffee at home. It represented a big challenge for Delta Cafés, since capsules are completely oriented to consumers, and the company had always been focused and successful in Business to Business (B2B) approach, through horeca channel. As a leader, Delta Cafés started developing a new brand to compete in the new segment: Delta Q was born.

It is a very good example how a correct alignment between the marketing strategy and the brand positioning are crucial for success and to win competitive advantage. To explain the marketing strategy and company decisions, the case study counts with a coffee market analysis, the presentation of capsules segment and the new trends, and last but not least the Delta Q strategy.

Keywords: Marketing Strategy, Brand Strategy, Brand Extension, Competitive Advantage

JEL: M310 – Marketing; M370 Advertising

RESUMO

Esta caso de estudo é focado na Delta Cafés, e na forma como a empresa reagiu aos novos desafios do mercado, às novas tendências e às mudanças no comportamento dos consumidores.

A Delta Cafés é uma empresa Portuguesa, que nasceu à mais de 50 anos e desde cedo conquistou o mercado Português, tornando-se líder. Construiu fortes relações com os seus fornecedores e clientes, que se tornaram numa vantagem competitiva.

Em 2003, a Nespresso entrou Portugal com uma inovadora forma de beber café em casa, criando um novo segmento de mercado: as cápsulas. Este segmento representava um grande desafio para a Delta, uma vez que é totalmente orientado para o consumidor, e a empresa estava, até aí, muito focada no segmento B2B, com o canal Horeca. Como líder de mercado, aceitou o desafio e começou desde logo a trabalhar numa nova marca para competir no segmento das cápsulas: a Delta Q.

Este caso mostra a importância de como o alinhamento entre a estratégia de marketing e o posicionamento da marca, podem ser fulcrais para o sucesso. Para melhor entender a estratégia e o processo de introdução da Delta Q num mercado dominado por um forte concorrente, o caso está dividido em 3 partes: a análise do mercado do café e os factores externos que o têm afectado, o segmento das cápsulas e as novas tendências de mercado e por fim a estratégia da Delta Q.

Palavras-Chave: Estratégia de Marketing, Estratégia de Marca, Extensões de Marca, Vantagem Competitiva

JEL: M310 – Marketing; M370 Advertising

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1. THE CASE

1.1 Case Presentation

Coffee is part of the Portuguese life. It is consumed in different occasions and places. Most of the times, its consumption is associated to a breaking moment, or a fun moment with friends.

During the last fifteen years, the coffee market has been changing a lot and becoming more and more competitive. New ways of drinking coffee have been appearing and we have assisted a revolution in consumer habits. To be successful, companies must be able to follow market changes and deeply understand consumer needs.

At the end of 2003, Nespresso entered in Portugal offering a perfect “espresso” coffee at home. As a market leader and innovator company, Delta Cafés accepted the challenge and decided that it was time to show its ability to take Delta coffee inside Portuguese homes, and Delta Q was born.

“Delta Q is a unique combination of blends of coffees from the most diverse origins, conserved in capsules which preserve all the flavor and aroma of the coffee, and prepared in a line of sophisticated and elegant coffee-machines. It was conceived to satisfy all those who like to enjoy the world's best coffees in the comfort of their own homes. Associated with a modern, cosmopolitan lifestyle, Delta Q is present in the lives of all those who value aesthetics and practicality, and have limited quality time to spend at home relaxing or enjoying the company of friends and family.” (Delta Q, 2017)

1.2 Portuguese Coffee Market

Nowadays, European countries are characterized by higher rate kg/year per capita coffee consumption. In 2014, European average was about 6.4kg/year/pax. However, Portuguese coffee consumption is still bellow from Europe. In the same year each

Portuguese resident was consuming 4.7 kg of coffees yearly, it represents 2.52 cups of coffee per day (Jornal Sol, 2014). These lower numbers could be explained by the Portuguese preference for “espresso” coffees, served in small cups. In Europe people use to drink “coffee buckets”, prepared with a sack or filter, which implies larger quantities of coffee more diluted.

Nevertheless the coffee market in Portugal has a high weight on economy, and increased by 3.7% in 2016, to 484 million euros. The expectations for 2017 are "that consumption continues to grow" (AICC, 2017), reaching 8 kg per capita yearly. The consumption of coffee has been evolving and the industry is becoming more and more dynamic creating new technologies, new products and new trends.

Coffee makes part of Portuguese life and it is deeply entrenched in its culture. It is appreciated by the large majority of the population that begins drinking it in the adolescence - 80% of Portuguese people drink coffee on a daily basis (European Coffee Federation).

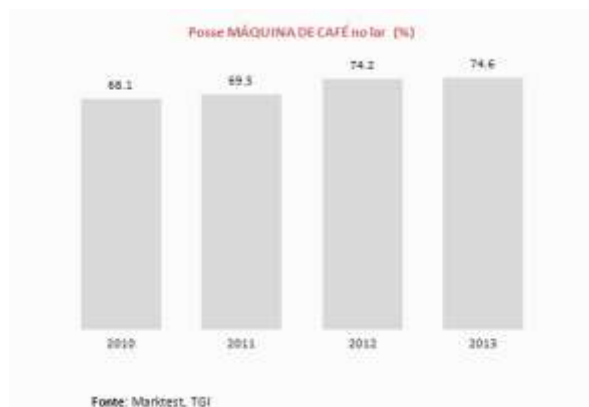
According to the place of consumption, coffee market could be divided in two big segments: “In Home” and “Out of Home”, and each one has different distribution channels: INA channel for “In Home” and Horeca channel for “Out of Home”. Over the years, consumption has also acquired expressiveness in the workplace. This consumption is usually aggregated by manufacturers in a joint segment called Office.

Since, drinking coffee has an important social component - it’s a way to meet friends, to talk, exchange ideas, make a break or just go out, coffee is the mostly consumed out of home product, representing 55.3% of the total out-of-home occasions (Marketeer, 2016). Portugal is the country with more coffee selling establishments per capita, one establishment for every 160 inhabitants, which contrasts with the average of one establishment for every 400 inhabitants in Europe (AICC, 2017).

The “out of home” segment continues to be the main segment on the market. 80% of the Portuguese’s drink coffee outside of their home, mainly driven by the social component mentioned above, although it is losing share for the “in home” segment, which has been growing a lot during the last years (AICC, 2016).

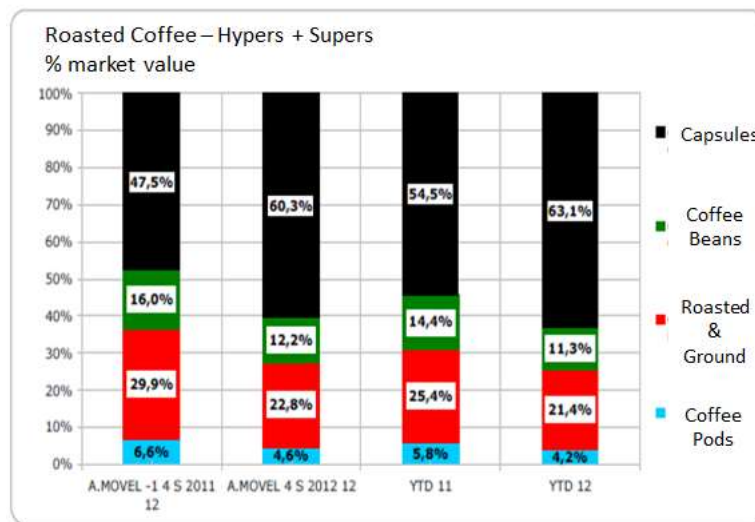
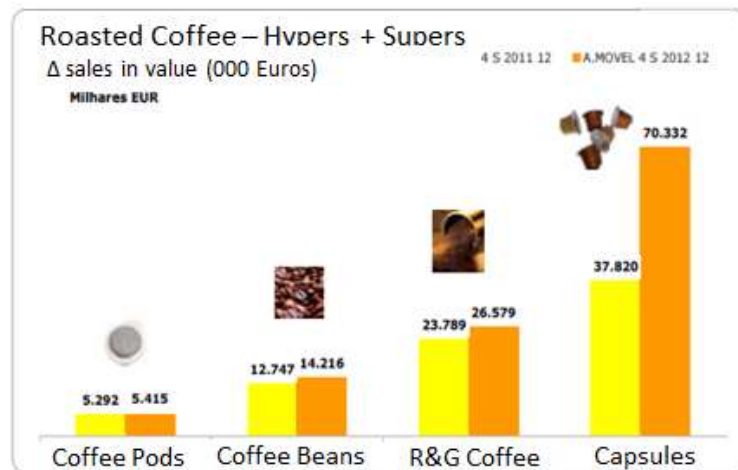
This growth was accelerated by the economic crisis in Portugal in recent years, with lower household ‘budget’ available. In 2011, Troika came to Portugal and various austerity measures were implemented. These included an increase in tax both for consumers and companies. In the coffee market, the main highlight was the VAT increase from 13% to 23% in out-of-home. It impacted negatively the Horeca channel and families were more willing to drink coffee at home (AICC, 2012).

More than 75% of Portuguese adult people (>18 years old) are used to drink coffee at home (Marktest, 2012). Along with the recent trend of drinking coffee at home, through technological development new coffee machines appeared at a lower price and brought to the families the possibility of enjoying an “espresso” coffee at their home. In 2013, 74.6% of consumers already had coffee machines at home (Graph 1) and it is expected that “in-home” market will continue to grow in the next years. Companies should invest in innovation thought coffee machines and products to satisfy customers’ needs and follow the new market trends.



Graph 1- Coffee Machines Penetration (Marktest)

The roasted coffee dominates the in home coffee consumption, and it could be divided in four segments: grain, ground, pastilles and capsules. Nowadays the more dynamic is the capsules segment, represented in 2012, 63% of coffee’ value sales in hyper + supers (Graph 2).



Graph 2- Roasted Coffee Sales in Hypers+Super (ACNielsen YTMarch 2012)

Despite the recent crisis, Horeca channel is again more promising. In 2016, an increase in coffee consumption out of home is expected again. Portuguese reached a peak of confidence and are becoming more optimists. The unemployment rate has been declining (Nielsen, 2016). Likewise the change of government in 2015, VAT decreased again for 13% for out-of-home. A combination of these factors is leading to a growth in both segments.

The coffee market counts with four main players in Portugal. Delta Cafés is the leader, followed by Nestlé, Nutricafés and NewCoffee. All of them are present both in Horeca channel and “In Home” segment with capsules.

1.2.1 The “Capsules Segment”

Coffee capsules story began over 30 years ago with Nespresso (Nestlé) and with “a simple but revolutionary idea: enable anyone to create the perfect cup of espresso coffee just like skilled baristas” and make it possible to savor the best espresso in the comfort of one’s homes. It consisted of capsules containing roasted & ground coffee made exclusively for the use in specially designed machine - user friendly and cleaner than traditional coffee machines (Nespresso website).

NESPRESSO began by testing and launching the product in the office sector (in Switzerland, Japan and Italy) just entering in the household market in 1990, with Turmix as a machine partner.

To enter the household market Nespresso decided to target “Well educate, 35-45 years old men and women, who enjoyed to drink restaurant-quality espresso at home” and opted for direct channels – its own boutiques – which would increase customer loyalty (Nespresso website).

Till late 1990s, this segment was a niche market and a classic example of an oligopoly, limited to the pioneers: Nestlé (with Nespresso) and Keurig Green Mountain (with K-Cups).

In the beginning of 2000s, brands such as Dolce Gusto (by Nestlé), Tassimo (by Kraft, now Jacobs Douwe Egberts) and A Modo Mio (by Lavazza) enter the market establishing high margin niches.

In 2012 Nespresso and Keurig design patents expired decreasing barriers to entry and giving space to the development of Nespresso-compatible brands and own label products that can rely on the Nespresso machine delivery base, but have a more competitive retail price for the capsules.

No longer a niche market, the capsules industry has developed into a complex value chain over the years filling the office and at home markets. Coffee capsules have created a new category combining coffee culture with the convenience and speed of

the capsules. They have redefined the way people prepare and enjoy their espresso coffee, increasing and expanding enormously at home consumption.

1.2.1.1 The Portuguese Capsules Segment

Coffee capsules consumption is a trend across the Europe and has been growing a lot during the last 15 years. In Portugal this segment has also demonstrated to be a very dynamic one. Since 2007 the consumption grew from 6 thousand bags to 98 thousand bags in 2011 (Table 1)

	2004	2005	2006	2007	2008	2009	2010	2011	Average
France	202	246	361	482	512	672	782	947	525
Germany	72	107	215	311	434	462	563	655	352
Netherlands	256	306	358	439	272	190	290	225	292
USA		32	62	63	98	146	266	358	128
Belgium	57	67	121	115	79	123	125	140	103
Italy	38	42	51	65	71	91	128	155	80
Switzerland	15	29	32	46	64	61	76	90	52
Spain	13	18	24	35	47	56	71	83	43
Austria	4	5	10	25	35	38	46	69	29
Portugal	1	2	3	6	13	25	50	98	25
United Kingdom	3	5	10	14	18	24	27	29	16
Japan	0	2	2	2	6	13	17	21	8
Norway			2	3	5	5	6	8	5
Poland				1	2	4	6	8	4
Denmark	1	2	3	4	3	3	7	8	4
Sweden						1	3	6	2
Russia	1	1	1	2	2	1	2	2	1
Greece	1	1	1	1	1	1	2	2	1
Selected countries subtotal	663	866	1 257	1 615	1 661	1 917	2 467	2 903	1 669
% of total consumption in selected countries	0.9%	1.2%	1.8%	2.2%	2.3%	2.7%	3.3%	3.9%	2.4%

Em milhares de sacas

Table 1- Coffee Capsules Consumption (International Coffee Organization, 2012)

As revealed by Nielsen in HiperSuper (2016) this segment has been growing "double-digit" representing since 2016 more than 60% of current coffee consumption "in-home" and assuming a dominant position at the expense of roasted pure coffee.

In 2010, only 14% of the households consumed this product. In 2014, Kantar Wordpanel data shows that coffee capsules were already present in 49,5% of Portuguese homes in 2013. This trend could be explained by the increasing of "in-home" consumption in alimentary sector driven by Portugal' economic situation, and also by the diversity of coffee capsules offered.

Year after year new brands have entered in, finding good opportunities for doing business. Pioneers and global brands, with their own systems, such as Nespresso, Dolce Gusto, Tassimo and Lavazza, have entered and now have their presence in the Portuguese Market.

The Portuguese brand Delta Cafés entered in the segment by launching Delta Q, with its own system machine and its own capsules, achieving a big market penetration and share.

Moreover this segment assisted to the entrance of some other Portuguese brands that view here an opportunity to attract new consumers, find new occasions and new channels, producing compatible capsules (capsules compatible with various coffee machines). For this case is important to mention some brands like Kaffa, Torrié, Bicafé, Nicola and Novo Dia.

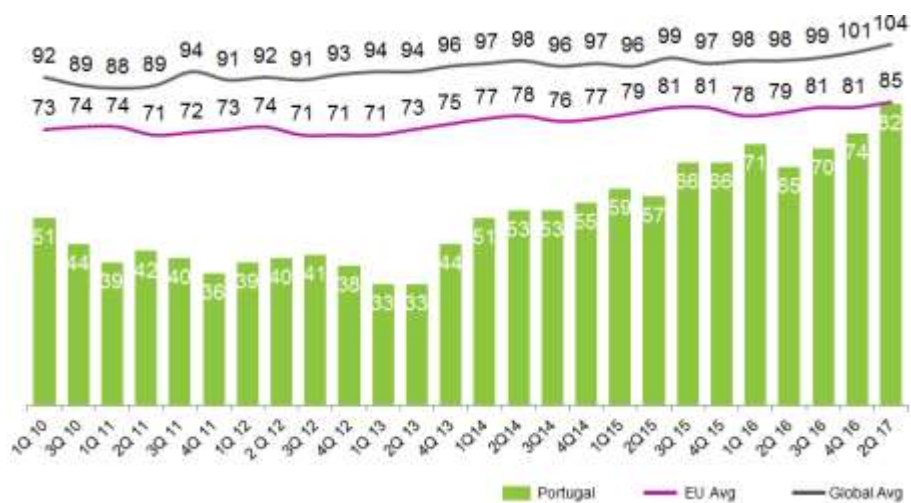
Of special importance was the entrance of private label brands such as Pingo Doce, which offer the first coffee machine at 49.99€, Continente, Auchan, Intermarchè, Lidl, Dia and others, which have increased competitiveness a lot. In fact they are a low cost alternative to the originals as they are cheaper and are available in several points of sale. Even consumers of brands, such as Nespresso or Delta Q, are hesitant about the more affordable price of compatible and the availability in supers and hypermarkets.

The fact of capsules products has become more affordable in price, as well as the entry of private label brands, has made capsule coffee machines a luxury accessible to all. Despite the different consumption intensities, on average each consumer spends €9 on each purchase and €68 a year on capsules. The purchase frequency of this products already reached 7.4 times per year, in 2013 (Kantar WorldPanel, 2014).

1.2.1.2 Consumer Analysis and Market Trends

To better understand the Capsules segment and to allow the continued growth of it, it is very important to know the consumers, the potential new targets, the consumption moments and the market trends.

Since last year Portugal confidence level keeps improving, achieving an historical peak and becoming in line with European average (Graph 3). The economic stabilization, GDP growth, the decreasing of unemployment rate and the highest tourism in the country are the factors that have more contributed for it (Graph 12 and Table 5). More than half of Portuguese consider that Portugal is no longer in a recession (Nielsen Global Survey Consumer Confidence, 2017). But, price and good promotions continue to have strong relevance to consumers (Nielsen Shopper Trends, 2017).



Graph 3 - Portuguese Confidence Level (ACNielsen, 2017)

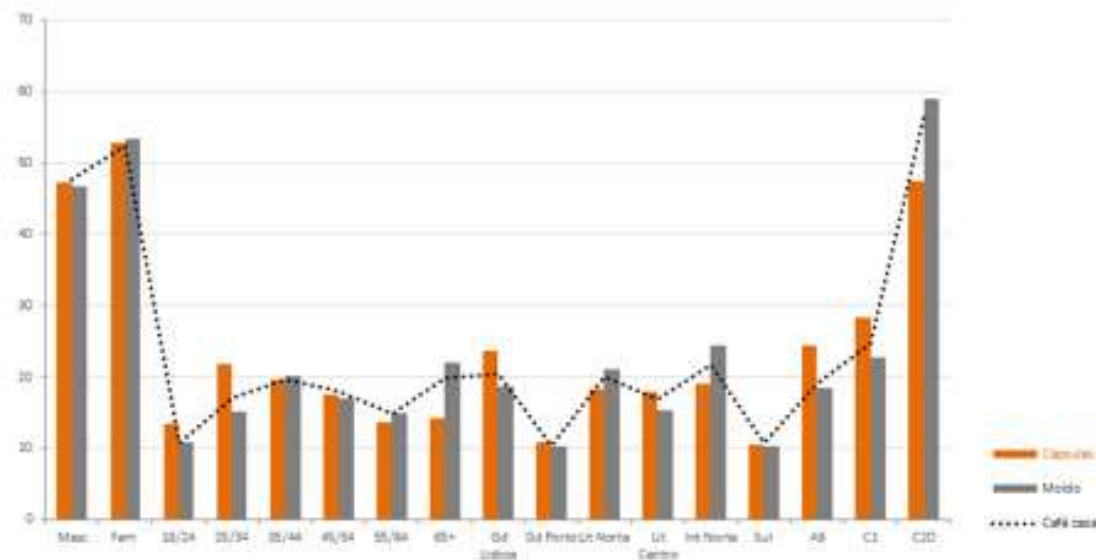
Portuguese consumers are showing increasing interest in premium products, valuing quality and better experiences even at higher prices. There are attributes that go beyond the lowest price. 88% of Portuguese are willing to pay premium prices for products with superior functions or performance and 58% are willing to pay more for sustainable brands (Nielsen Premiumization Report 2016; The Sustainability Imperative, Nielsen Report 2015). “Green” attributes became a trend across the Europe and have a premium potential.

Regarding this concern, Hamburg, the second biggest city in Germany, banned the purchase of coffee capsules, plastic bottles and other by public agencies as a way to decrease the negative impact in environment. For coffee capsules, they also mention the difficulties of coffee dregs recycle (UOL, 2016).

Portuguese consumers are the more connected with technologic developments; more than 90% have a mobile device. Linked with this, it is expected an increasing in online sales. Nowadays the online purchase penetration is only 8,7% and it's mainly in high social groups (Nielsen, 2016).

According to a TGI Marktest Study (2012) it is possible to identify 2 kinds of “in-home” coffee consumers with different profiles between them: the ground coffee and the capsules consumers. The “ground coffee consumer” could be defined as the traditional ones, they are more senior and value the ground coffee. It still represented 44,8% of in home consumption in 2012, although it had been losing importance with capsules appearance.

The same study revealed that capsules segment covers a younger target. Normally its consumers have ages between 18 and 44 years old, are living in big cities and belong to the higher social classes (A/B) (Graph 4) . They are also characterized by the concern about the technological developments (77%), the brand loyalty (69%), and the willing to pay more for high quality products (68%). They also give preference to eco-responsible brands, which contributed for a better society (67%).



Graph 4- In Home Coffee Consumers (Marktest, 2012)

Coffee consumption is intrinsic in the Portuguese culture and it results in different moments of consumption. According to a Kantar Wordpanel study (2014), the

product chosen (type of coffee) for consumption may vary according to each consumption occasion.

In the main 3 occasions of coffee consumption (near to the main meals): breakfast, lunch and dinner the most consumed type of coffee is the capsules, followed by ground coffee. 40% of the capsule consumption occasions are at lunch and 30% at dinner. Most of ground coffee consumption is also done at lunch (30%) and dinner time (27%). On the other hand the consumption of soluble coffee happens mainly at breakfast (63%). In the middle of the morning the Portuguese tend to opt for teas, milk and juices.

Younger coffee consumers drink coffee mainly during the working days, and opt for ground coffee at breakfast and capsules at the lunch (Kantar Wordpanel, 2014).

The group of more active customers, who makes part of active population, with kids and belonging to the higher social classes, drinks coffee mostly at breakfast, and the “star” product is capsules.

Senior consumers drink coffee mainly at breakfast (59%) and normally opt for soluble coffee.

1.2.1 Delta Cafés – Company Overview

Since he was a child, Rui Nabeiro had a dream... with 30 years old, in 1961, to realize this dream; he created a small production of coffee with no more capacity than 30kg per day, at his house in Campo Maior. The company registered rapid growth and won a good position in Portugal, becoming the leader of coffee market in the country. Then, Delta decided to enter in the international context, not only in countries with some Portuguese cultural influence, but all over the world: USA, Africa and Europe (Figure 5). In 2007, Delta covered 98% of Portugal and 75% of Spain. It represents a growth of 14% in Delta Clients’ data from previous year (Relatório de Sustentabilidade Delta, 2007).

Already in the 70’s, company goals were focused on being competitive in the market, understanding customer needs and offering a high quality product and customer

service. The philosophy of the group is to be “*A brand with a human face and commercial relations based on the principle ‘Each customer is a friend’*”.

Nowadays, the company invoices more than 340 million euros per year, being 20% of its business volume for export. Delta is already present in 40 countries, in 8 of them with direct operations: Portugal, Spain, France, Switzerland, Luxembourg, China, Brazil and Angola. It has more than 3000 employees and 2 factories in Campo Maior and Luanda (Delta Cafés website, 2017).

To compete in coffee market, Grupo Nabeiro has 4 important brands: Delta Cafés, Delta Q, Bellissimo and Camelo Cafés.

1.2.2 Competition

1.2.2.1 NESTLÉ GROUP



Nestlé is one of the most important multinational companies operating in the FMCG, and is present in 191 countries.

The company entered the Portuguese coffee market in 1985. It counts with a strong nationwide distribution in the Food Retail, Horeca and Hotel Industry segments, nowadays with four Portuguese brands: Buondi and Sical with a national coverage, Christina and Tofa with a more regional orientation (the first in the North and the second in the South). Nestlé is also present in the “Capsules Segment” with the two Global brands, Nespresso and Nescafé Dolce Gusto.

1.2.2.1.1 Nespresso

Nespresso, the worldwide leader and reference in the category, arrived to Portugal in 2003, opening a boutique in Lisbon city center, and later in Oporto. Quickly Portugal has demonstrated to be a very profitable market as, for Portuguese people, owning a Nespresso machine was considered a reasonable luxury.

Nespresso continues selling through its own stores and channels but today anyone in Portugal mainland can place an order by net or by telephone and choose the place, time and day of delivery with total flexibility and convenience.

The brand intends to offer a sensorial experience, a lifestyle, made of the highest quality coffees, innovative stylish machines and exclusive and personalized services.

Nespresso is present at exclusive events such as the Cannes Film Festival, has been doing the most known TV campaign with George Clooney, or it develops some kind of association with celebrity talents in design and gastronomy bringing to life the perfect coffee moments enjoyed by consumers.

Through its sustainability strategy - the Positive Cup – Nespresso reinforces the way it creates shared value, ensuring that activities deliver economic value for the company preserving the environment for future generations while supporting social progress for all stakeholders - turning out each cup of Nespresso coffee in a positive cup.

1.2.2.1.2 Nescafé Dolce Gusto

Also a Nestlé' brand, NESCAFÉ Dolce Gusto entered Portugal in 2007. It was the first capsule system in Portugal to be available at all points of sale with a wide range of espresso coffees and also drinks derived from coffee. It is a capsules brand to compete in retail channel with a more familiar positioning. The brand entitles itself as the modern art of coffee and promises the perfect pressure for every drink, either the express coffees or the other coffee-based drinks that are part of brand's offer. (Hipersuper, 2007).

NESCAFÉ Dolce Gusto machines (associated with KRUPS) work with a smart capsule system. The system adjusts the pressure inside of the capsule according to each beverage to ensure consistency and high quality in each cup. It was the first coffee machine in the market with a system which is able to prepare a huge variety of hot and cold drinks. The brand offers 10 different capsules of coffee with different types of coffee and intensities, but also had available 14 different drinks such as hot chocolate, cappuccino, latte macchiato and ice tea.

Its prices are aligned with the market. Coffee machines prices are between 50€ and 200€, and each capsule costs 0.36€ and are sold in 16 capsules' packs.

1.2.2.2 MASSIMO ZANETTI BEVERAGE GROUP



Massimo Zanetti Beverage Group has a network of companies on a global scale and some well-known international brands offering a variety of high quality regional products, including coffee (the main business), tea, cocoa and spices. Most of these are leading brands in their specific area or sector. In Portugal the Group has a nationwide distribution in the Food Retail, Office, Horeca and Hotel Industry segments (Segraffo website).

Nutricafés was born in 2000 with the union of the two Portuguese companies, Chave D'Ouro and Nicola Cafés and is now part of Massimo Zanetti Beverage Group.

1.2.2.2.1 Nicola

Nicola is a historical and nationwide distributed brand. It dates back to 1779, when the historical Nicola Café opened in Lisbon, boasting many intellectuals among its customers. Its offer includes ground and roasted coffee, capsules, pods, tea and infusions (MZB Group website).

To compete in the new segment, Nicola launched in 2012 capsules compatibles with Nespresso type machines. For the launch, the brand presented 3 different capsules: Bocage - to honor the emblematic writer of Setubal; Selecto and Decaffeinate. Nowadays its portfolio counts with 5 capsules with different intensities to suit all Portuguese tastes.

1.2.2.3 NEWCOFFEE GROUP



The Portuguese Group NewCoffee has consolidated its position through a strategy of acquiring small and medium enterprises, focusing on professional management and creating added value for the customer and for the final consumer. It offers a wide

range of brands and products, extending its activity to various segments of the market. The marketed brands are: Bogani, Sanzala, Caffècel, A Caféeira, Lavazza and Novo Dia Cafés (New Coffee Group website). To compete in capsules segment, the company entered with Lavazza and Novo Dia brands.

1.2.2.3.1 Lavazza

Lavazza A Modo Mio, claims to be a system able to bring to one's home the true taste and aroma of an Italian coffee, with all its density and creamy characteristics.

It is available at Jumbo Hypermarkets.

1.2.2.3.2 Novo Dia

Novo Dia is offering compatible capsules with Nespresso and Dolce Gusto systems.

1.2.2.4 PRIVATE LABELS

1.2.2.4.1 Pingo Doce

Pingo Doce is one of the biggest retail chains in Portugal, and was the first Portuguese distribution brand entering in capsules segment in 2010.

According to its strategy of offering good quality-price relationship and with its positioning of proximity and close to consumers during economic crisis, the brand developed a capsules system machine to be sold exclusively in its own retail stores.

The brand had a strong importance for capsules segment boost, such it was the first one offering a coffee machine at 49,99€, allowing more consumers to enter in the capsules segment. The brand offers coffee capsules, with a similar taste of Portuguese traditional coffee, at a very competitive prices – 0.28€ for each capsule.

With that offer, Pingo Doce reached a solid and big position in that segment market, with 12.9% of market share in 2012 (Marktest, 2012).

1.2.2.4.2 Continente

Continente is Sonae's retail chain and is the market leader in Portuguese retail. It is the major competitor of Pingo Doce. Together the two chains reach more than 50% of market share in Portugal (Nielsen 2016).

Two years later, in 2012, based on the same price strategy of its main competitor, the Continente launched machines and capsules but also compatible capsules with Nespresso and Dolce Gusto systems.

1.2.2.4.3 Lidl

Lidl extended recently the range of its private label (Bellarom coffee capsules), compatible with Nespresso machines and has launched in Portugal a variety of coffee capsules of its own brand to, compatible with Delta Q.

1.2.2.4.4 Auchan

Auchan private label offers coffee capsules compatible with Nespresso, Dolcegusto and Delta Q systems.

1.2.2.5 OTHERS

1.2.2.5.1 Tassimo

TASSIMO claims to be the only single cup brewer that delivers authentic café-style beverages using unique INTELLIBREW™ technology, brewing the perfect drink in all different options it offers like coffee, tea, espresso, latte, cappuccino, mocha, and hot chocolate.

Tassimo is available in e-commerce.

1.2.2.5.2 Kaffa

Kaffa is a Portuguese brand who saw its business accelerating so much with the advent of the so-called "compatible systems" that it has decided to leave the roasting and sale of coffee to the restaurant sector and focus only in the capsules segment.

Kaffa began with a capsule that could be used on Nespresso machines. Now it also has compatibles with Delta Q and Dolce Gusto machines. Recently it has introduced its own machine in the market.

Kaffa claims there is a Portuguese way of feeling that reminds the sound of the sea, the color of the sun and the taste of nostalgia and brings to memory traditions and emotions. A Portuguese passion, maybe unique in the world, coffee.

1.2.2.5.3 Torrié

Torrié, another Portuguese brand which was already known in other formats, became available as a capsule compatible with Nespresso equipment. It claims to make it more accessible the best Portuguese flavor in a cup of coffee. A coffee that inspire. It wants to be a young, urban, dynamic and interactive brand.

1.2.2.5.4 Bicafé

Bicafé claims to be a traditional Portuguese brand specialized in all espresso coffee solutions including, coffee capsules. It offers compatible capsules with Delta Q, Nespresso and Dolce Gusto.

1.3 Delta – new opportunities in the market

After Nespresso enter in Portugal, Delta Cafes received a lot of calls and emails from Delta customers asking at which point in the time they will launch a product to compete with Nespresso.

As a leader and expert of coffee market, Delta understood that was the time to seek market opportunities and to respond to customer needs. So, in the end of 2004, the grandson of the founder, Rui Miguel Nabeiro decided to gather all the managers from different departments to obtain suggestions and opinions for the new strategy the company should develop to face new challenges. “In a few years Delta Cafés will own a large share of coffee capsules market.”

The adventure began with a development of a special system for the new Delta machine. It seems easy, but Nestle is in capsules segment for a long time, and worked a lot to produce several systems for espresso machines and obtained a large number of patents, so it was difficult to come up with a new and original system. Only two years later, at the end of 2006, a new system had been created. After established the system, many tests needed to be done to filter quality, materials used in capsules and the coffee flavor. The development time was good to build strong relationships with the machines and capsules suppliers and to create a partnership.

But Delta was not sleeping during this time. The company did market research studies, analyzed competition offers and looked for the segment trends. The last one revealed that 65% of Portuguese drink espresso' coffee at home, 75% already have espresso coffee machines and 71% had them for 2 years ago. Also 86% of households bought the machine in hyper or supermarkets (Hipersuper, 2007).

The technical part was completed, so it was time to think about the launch and the strategy for the new brand. Rui Nabeiro and the board management defined Christmas as the perfect time to introduce new products in the market. Therefore in November of 2007, the company entered in the new capsules segment.

1.3.1 Delta Q – a brand extension to compete in capsules segment

A lot of people thought and asked if the late launch of Delta Q could be a problem or a disadvantage for the brand, but Rui Nabeiro did not think so, and always told “that’s the perfect time to enter in these market and new segment”. Capsules market had not still reached the peak and household market was still growing.

However it was a big challenge for Delta company and for Rui Nabeiro. It was the first time that Delta was not competing as a leader. Moreover in a business segment where it was not present before – Business to consumers. It represents big changes in marketing strategies that Delta usually used, with different dynamics and different communication that the company never had done.

To compete with Nestle with 100% of market share and to accomplish its ambitious objectives defined: sell 5k of capsules' machines, achieving 30% of market share for the 1st quarter of 2008 (Hipersuper, 2007), Delta needed a very competing strategy.

The strategy for the launch and penetration of Delta Q within the market was focused mainly on two strength points: accessibility and quality.

1.3.2 Delta Q – Marketing Strategy

The strategy for Delta Q was a brand extension, since they decided to use “Delta” in the name. It reduces risks for new products entry, and the new brand can benefit with a parent brand confidence, brand equity, attitudes and experiences that customers already had. It was a bit hit and took many advantages for Delta Q. According to “Brands’ Magnetic Fields” study done by Brandia Central and Marklab, Delta was on top 10 of the more magnetic brands. So, the presence of “Delta” in the brand name provides confidence to customers (Hipersuper, 2007). For a lot of consumers it represents quality, sounds as a guarantee and allowance to make quick decisions. It also helps to differentiate its products from those competitors.

Even though the overall brand is familiar; it is not enough to sale individual products. Delta needed to let its customers know the new segment where it is present and the new products available, encouraging trial for these coffees.

Delta Q was launched as capsules coffee premium brand, which the mission is to join the perfect coffee to unique moments at home, taking to customers the sophistication, passion and pleasure of the best espresso coffee.

Its vision is to democratize coffee, giving access to quality coffee to everyone, everywhere. Machines with a “Qool” design, reflecting cosmopolitan habits, and different capsules for all tastes available in the retail channel have been helping Delta to be closer to consumers. Delta Q is the solution for anyone who wishes to enjoy the best coffee quality at home.

1.3.2.1 Target & Positioning

At the launch moment, Delta Q was positioned as a premium brand as Nespresso, with the same target: men and women, 25-40 years old belonging high social classes, passionate about an elegant design, who loves to drink quality coffee espresso at home.

As a consequence it failed to create relevant differentiating factors, a substantial and beneficial difference over competitors, namely Nespresso. It failed to explain what made the brand different and better than competitors. Furthermore Delta Q intensive distribution strategy, on supermarkets and hypermarkets, did not match with its premium position and the “high” target that was looking for personalized services as the ones offered by Nespresso.

One year later, Delta Q view an opportunity in the increasing acceptance for the capsules system and the fast growth the segment was proving, with higher market penetration and sales. Deciding to capitalize on that, Delta Q addressed and focused the brand to a new target - a “medium-high class”, with a much larger dimension and potential, which could be efficiently reached using Delta Q initial intensive distribution strategy though supermarkets and hypermarkets. At the same time Delta defined a new giving emphasis to coffee as part of day life in times of sharing and living.

The key difference between the two brands is that Nespresso positioned itself as exclusiveness with a selective distribution and Delta Q wants to be a quality brand available everywhere to everyone – “easy to buy” – so it applied an intensive distribution strategy. In the management’s mind Delta Q was been perceived as a new innovative product to be placed close to its consumers.

1.3.2.2 Products Portfolio

In order to meet its strategy to be available for everyone, at the launch moment Delta already presented a broad portfolio. It was composed by two machines and seven different blends, with different tastes and intensities. (Figure 1 and Figure 2).

With two machines, the company wanted to reach two different market segments: the M55 more simple and economic at 149€; and the Bugatti for a market niche with extra quality and premium design, providing a better performance, which could be bought at 499€. Both machines were produced only by Delta Q, and only worked with capsules of the same brand in what is called a close system.

Regarding the capsules, the company chose to invest efforts and a lot of money on it to obtain high quality, doing big researches to find the favorite coffee taste of Portuguese.

Over the time, the brand has grown and the market changed. More competitors entered in the market and consumers searched for innovation. Delta wanted to cover its consumer needs, and widened its portfolio.

More machines were developed, and nowadays the brand has six different models, in different colors, to be purchased, which prices may vary from 49€ to 499€.

Also more capsules had been appearing on the brand assortment during last years (Table 6).

In 2009, the first capsule' espresso made from Rooibos, a plant that gives rise to red tea, appeared in the market, and was Delta who launched it. It opens a way to a new category for home consumption because *“it is not about coffee or tea. It is an exotic beverage without caffeine and rich in antioxidants”* explained Rui Nabeiro (see Figure 3).

With a partnership with Tetley, the 2nd player in the category worldwide, in 2011, the company introduced in the market 3 capsules of tea named Delta Q Tisanas. It was strategic to increase loyalty to the brand as well as frequency of use and gain new costumers. Rui Nabeiro said that with these new products wants *“to get in a market where Delta Q was not yet”*.

In the last years, the innovation continues and the company launched new products. Breakfast appeared in 2014, it is a special coffee blend to be drunk with milk. The

objective was to capture the breakfast moment, where it was detected that the vast majority of consumers was using soluble coffee.

In 2015, together with its new positioning “Delta vive mais”, it launched “My Coffee” - a digital platform for customers create their own coffee. Combining different intensity and flavors, and give also the possibility of having a personalized message.

In the same year, to reach new customers in a more senior target, Pure was created, a new drink composed exclusiveness for barley with strong health benefits, aiming to capture a new senior target and also to reach kids consumption

Last year, to honor the founder of the company, Delta Q presented two new blends inspired by him, with UniQ name. The premium product was positioned as the most expensive of the portfolio, targeting more demanding consumers with a coffee blend of outstanding quality. Also a new barley capsule appeared, with a fusion of coffee and barley – Fusion. Once again the objective is to have more solutions for the breakfast moment.

The tea market has not been forgotten and a new green tea with orange peel was launched – Purify. The objective of this product was to use green tea slimming properties to reach consumers more focused on health and beauty.

The more recent innovation of Delta Q was Qanela, the first coffee in the market with cinnamon. A surprising blend has registered some very interesting results, since many Portuguese consumers already had the habit to drink coffee and using a cinnamon stick to mix the sugar in the cup.

In October 2017 the brand launched Delta Q bio a, a new blend made of biologic coffee, answering to one of the latest trends in FMCG: the biological products.

The offer increase and diversify, as well as the discovery of new consumption moments will be the main drivers of coffee sector growth”(Hypersuper, 2017).

The right communication mixed with a constant innovation on its portfolio was the recipe for success. 8 years after the launch, in 2015, Delta Q had already 1000

millions of capsules sold and the market leading positioning, an historic landmark for the brand.

1.3.2.3 Pricing

During last years, consumers have become more price-sensitive, looking for products and services with lower prices and more benefits, searching the best quality-price relationship (Grande Consumo, 2016).

According to the brand business strategy inputting this versatile characteristic, that is, a brand that can be used by everyone, the price positioning also reflects it.

Both Delta Q and Nespresso sell 10 capsules boxes. In 2007, when Delta entered in this market segment sold each box at 2,5€ (0.25€ per capsule) and Nespresso at 3,1€ (0.31€ per capsule).

Nowadays the capsules price is a little bit higher: Nespresso sells each capsule at 0,37€ to 0,42€ (Nespresso website), Delta Q sells at 0,35€ to 0,39€ (Delta Q website) and Pingo Doce (MDD) sells at 0,22€ to 0,28€ (Pingo Doce website). However Pingo Doce capsule' unit price is lower, it sells packs of 16 capsules, and the final price of its pack is higher than Delta Q pack (with 10 capsules) (Table 2).

Although capsules price is very important, no consumer would be coffee capsules without a coffee machine. The first purchase is the machine, and each machine sold represents one more client for capsules. In a close system the machine purchase is even more important, since the consumer will be attached to the brand in a long term relationship, buying exclusively the capsules of the brand he has chosen.

As mentioned above, Delta Q enter in the market with 2 different models of machines: M55 at 149,9€ and Bugatti at 499€. In 2010, Pingo Doce came into the market offering the best price for capsules and machines. Its machines costs 49,99€ and each capsule was sold at 0,20€ (Hipersuper, 2010).

Brand	Capsules Price (unit)	Coffee Machine price
	0.36€ - 0.39€	49.€ - 99.€
	0.38€ - 0.46€	99€ - 499€
	0.36€	49.90€ - 199.90€
	0.23€ - 0.34€	n/a
	0.22€ - 0.28€	59.90€
	0.20€ - 0.26€	39.99€ - 49.99€

Table 2- Capsules and Capsule system machines prices (The author, 2017)

1.3.2.4 Distribution Channel

The distribution channel is maybe the biggest difference between the two brands, Delta Q and Nespresso. While Nespresso has an exclusive distribution, with its own boutiques, (at the beginning only 2 in Portugal – Lisboa and Porto) and online store; Delta wanted to be available for everyone, everywhere and entered in the mass market selling capsules and machines in supermarkets, covering the whole country.

Although it looks easy, it was not. Delta needed to invest some time before entering strongly in the mass market. For retailers it was a niche segment, with no expression in the overall coffee category, so they resisted to list such a variety of so many new products on their shelves.

At the beginning, the main goal of Delta Q was to gain new consumers and, entering in the market quickly and to place a large number of machines in Portuguese homes, before the expansion to the whole mass market.

With some initial resistance from retailers, Delta Q started by making partnerships with Banks, magazines, insurance companies and other companies that offer Delta Q machines after a subscription or a purchase. The strategy was to sell large volumes of

machines for these institutions, and let know its capsules coffee, creating awareness for the new brand, and incentive trial in final consumers. Basically it created goodwill and increased the perceived value for the brand, but consumers bought it as a premium and not as a product.

Its first retail customer was El Corte Ingles that represented an important role to test and prepare Delta Q for the large distribution. During the first three months of 2008, Delta Q was sold only in El Corte Ingles, then it was rolled-out and began to all the main Portuguese retailers, with the objective to sell 30k coffee machines until the end of the 1st year.

Beyond the mass retail channel, Delta Q also opened three own stores: one in Atrium Saldanha, and other in Avenida da Liberdade, and another one in OPorto. These spaces reflect the brand inspiration. It is more than a coffee bar, it is a space where consumers can relax and enjoy drinking and tasting the different coffee flavors knowing Delta Q products and receiving the best advices about coffee and machines. These spaces have three different areas: a boutique, a quick service area and a lounge.

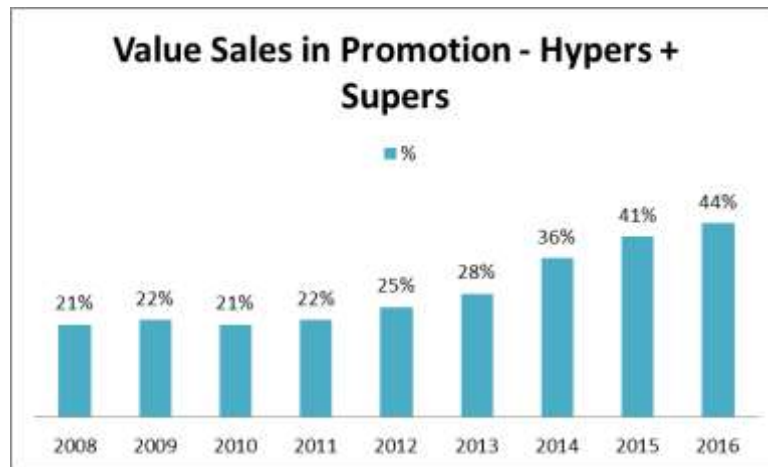
Online channel, with less weight, is also available with exclusive offers and special conditions. This channel is still low in Portugal, and grows modestly. E-commerce only had a penetration of 8,2% in Portuguese homes in 2016 (Nielsen, 2016). Nespresso has suffered a lot from this. To try to recover, the company has increased the range of its own stores, created online campaigns with the offer of shipping without a minimum purchase limit and made some test with capsules vending machines.

Nowadays, the modern retail is the main channel to sell coffee machines.

1.3.2.5 Promotion

During last years the sales on promotion increased a lot and in 2017 have reached a peak representing 45p.p of total FMCG sales (Graph 5). The expectation is it continues to grow. Portuguese' customer searches for the best deal regarding quality and price and it mainly happens through promotion leaflets. According to Nielsen (2016) in 2011 lower prices and promotions was the 17th and 18th attributes to choose

a store, but nowadays these 2 attributes occupy the 3th and 7th position in that ranking.



Graph 5- Value Sales in Promotion - Hypers+ Supers (ACNielsen 2016)

Manufactures are on the basis of such a level of promo, half of their sales are made under promotion. Private Labels also increases promotion, but registers a lower level and continues to lose share of market since 2013.

The presence on supermarket leaflets became the best way to sell and win share of market.

Delta Q is not different and promotes both capsules and machines. To enlarge the number of homes, the company opted for an aggressive campaign offering the value of coffee machines in capsules. Capsules are promoted at 25% off to increase households' stocks and accelerate consumption.

1.3.2.6 Communication

Before Delta Q launch, the company' communication had been mainly addressed to Horeca channel. With the new brand operating for a different market segment a different kind of communication was needed. Delta did strong investments to support it.

To enter in the home espresso machines market, and compete with a strong player with a firm position in the market that is easily recognized by customers as Nespresso,

huge communication tools are required. Advertising is vital to let consumers know about the products and create awareness. Sales promotions boost the trial on supermarkets. Also digital communication has been winning importance, mainly for the Delta Q target that is more aware to technological developments, and is loyal to the brands. If they try and like the brand, they will have a very important role in brand recommendation and word-of-mouth communication. The results of Nielsen Global Premiumization Survey (2016), presented recommendation as the 1st factor for premium products trial, and the online advertising occupied the 3rd position.

Delta Q has 3 main goals with its communication plan: Informational raising brand awareness, promoting the brand and the product characteristics; Attitudinal positing the brand as premium and innovative, but also accessible; and Behavioral to encourage product trial and coffee machines purchase, to increase customer engagement and brand loyalty. With these goals the brand wants to improve the relationship with consumers to increase profits and to expand the brand (Sequeira, 2010).

1.3.2.6.1 Above the line Communication

At the launch moment its promotion was only done in newspapers and magazines, focused on capsules and machines quality. Then an elegant website appeared presenting the concept, products and events where Delta Q was evolved and it also became a sales channel.

In 2008 the 1st TV spot was presented. The add was shot in a road between Serra da Arrábida and Óbidos and it showed a chase full of glamour that ends at a palatial house with a race between a man and a woman to see who arrives first to get the last Delta Q blend. It transmitted the idea of an elegant and luxury brand, in a glamorous environment, offering a high quality coffee.

In 2010, the communication changed, and the brand introduced Bruno Nogueira, a famous Portuguese comedian, on its advertising. With a humor face and to challenge Nespresso, which has George Cloney as its ambassador, Delta has created an ad with Elisabetta Canalis, his girlfriend (Figure 6). The campaign is based on the romantic

comedies of cinema, where a Portuguese young man (represented by Bruno Nogueira), a “clumsy hero” is helped by a Delta Q blend and machine transforming him into a hero able to do everything, including conquer the model Elisabetta Canalis. Still the most known ads are the ones where Bruno Nogueira interview capsules from different nationalities.

Over the years, coffee consumption at home continues to increase, and it is important to reinforce the idea that coffee machines are an extension of a pleasurable habit that can now be restored at home. In 2012, a new TV Spot was introduced. Despite it did not use comedians, it still had a funny meaning. The ad is about “Invite friends to your house is easy. Hard is to get them out of there”, because of the coffee that Delta Q does.

During the last three years, the communication has becomes more emotional, closer to customers and trying to be present in all moments of their life. A new signature was created “Vive Mais” – Live More. It concretizes the 3 brand values: by coffee quality and the intensity provided by this moment, by the simplicity of the process that give us availability to live more and sharing regarding to living more and being happier. The actual TV ad also reinforces it. Inspired by the unmistakable aroma of the coffee and its attraction power, it shows a neighbor to be invited to participate in the breakfast due coffee smell and a moment of sharing.

1.3.2.6.2 Below the line communication

Although advertising have a strong importance, the market went forward and promotion began to be a main purchase driver for Portuguese’ consumers.

During last years the sales on promotion increased a lot and in the current year it reached a peak representing 45p.p of FMCG sales (Grande Consumo, 2017). The expectation is it continues to grow. Portuguese’ consumer searches for best deal regarding quality and price and it mainly happens through promotion leaflets.

In 2016, Nielsen confirmed that manufactures are on the basis of such a level of promo, half of their sales are made under promotion. Private Labels also increases promotion, but registers a lower level and continues to lose share of market since

2013. The presence on supermarket leaflets became the best way to sell and win share of market.

Some years ago, Delta used Sales Promotion to attract consumer's attention and offer great incentives to purchase promotion. From special discounts, to sampling or contests, everything is valid to engage with customers. But it only occurred in special dates, such as anniversaries of Delta Q stores, new products launch, Christmas or Mother's Day.

As said above, nowadays the promotions have become more aggressive, and Delta followed this trend promoting both capsules and machines at lower prices. To enlarge the number of homes, the company opted for an aggressive campaign offering the value in coffee machines in capsules. Capsules are promoted at 25% off to increase households' stocks and accelerate consumption.

Furthermore brand events turns more relevant during the last years. They involve clients in a new and more realistic dimension, and Delta Q is taking advantage of it, once it participates in coffee workshops, supports campaigns for National Football team, gives coffee samples at metro stations, and shows new machines in shopping centers in a fashion way.

With its own boutiques, Delta Q is focused on the direct contact with customers, presenting a product's layout that makes it easy to choose and improve customer experience.

1.3.2.7 Green Attributes

Year after year, sustainability has become a key for the business success. According to Nielsen Global Premiumization Survey (2016), to pay premium prices Portuguese consider that products need to reveal superior performance, quality or should be natural or organic. 39% of consumers were willing to pay more for products that contain environmentally/friendly sustainable materials. Social Responsibility is also an important factor for brand chosen.

Delta Cafés is one of the Portuguese companies that most invests in social responsibility, trying to create a positive impact on society. As a responsible brand,

Delta is aware of its duty to contribute to making the principles linked to the sustainability be more and more a criterion for selecting consumers. The consumer must be the driving for a change in behavior (Delta Cafes website).

With Delta Q launch, the company worked hard to ensure it is the most ecologically-friendly capsulated drink in the market, developing a new project called Delta Rethink Eco-Project. It is a project of investigation and valorization the residues produced by coffee activity, studying the possible utilization of coffee dregs. It aims to prolong the coffee cycle and finalize it in a sustainable way.

For Delta Q, it also included the capsules recycle. The brand is working on innovative ways to incentivize its capsule end-users to recycle both the capsule and the coffee dregs. Given the fact that Delta Q capsules are so widely available, Delta has reduced some of its control over who and where its customers are. To overcome this, Delta is actively encouraging its customers to register online to qualify for discounts and trade-in deals. This data will enable Delta to establish and maintain contact with end-users, to build brand loyalty and to encourage customers to recycle. Only in 2010, 477.000 capsules were recycled.

Moreover Delta Q plays an important role as child supporter, creating in 2009 the Dreams' Factory, with SONAE and Terra dos Sonhos, which intends to come true the dreams of children with chronic sicknesses. In 2013, the brand supported Abraço in the reopening of Qantina, a space that provides over 100 meals a day to the community in need, through the collection and recycling of used coffee capsules (Imagens de Marca, 2014).

1.4 Case Questions

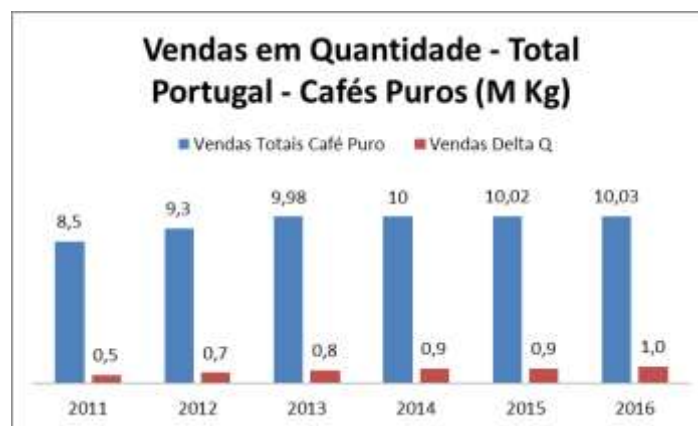
1. Characterize the Portuguese coffee market and the capsules segment. Comment how Portugal economic situation has been influencing the capsules segment.

2. Delta Q Cafés Company is the market leader in Portuguese coffee market. To launch its new coffee capsules product, Delta opted for a brand extension strategy and created Delta Q. What are the main advantages of this strategy?
3. What are the main advantages for Nespresso in being the pioneer on coffee capsules segment?
4. What are the main points of difference between Delta Q and Nespresso?
5. Regarding the constant innovation of Delta Q and taking into account the market trends and the “in-home” coffee consumers behavior, please identify the future opportunities for Delta Q business growth.
6. The capsules segment has been growing fast. What are the major treats for Delta Q brand?

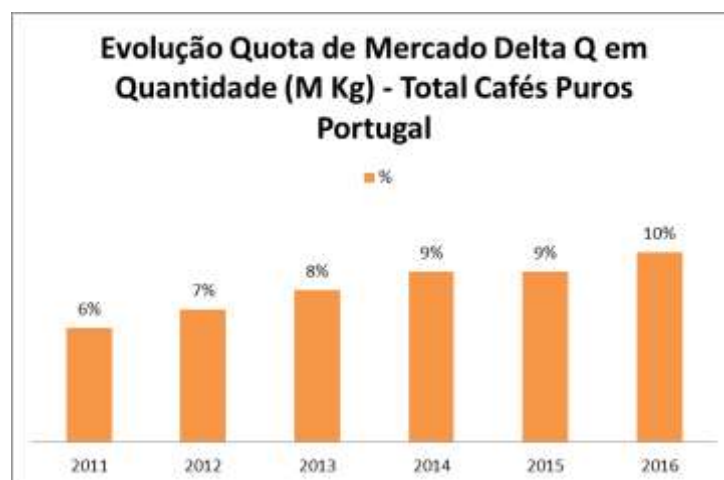
1.5 Appendices



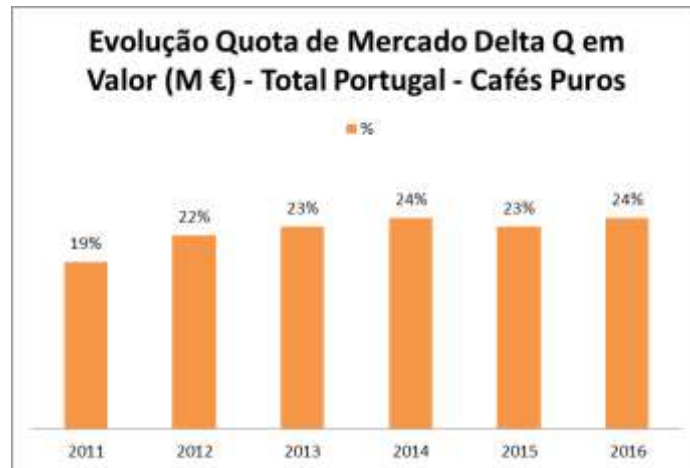
Graph 6- Value Sales - Total Portugal – Roasted Coffee (Information provided by Delta, ACNielsen 2016)



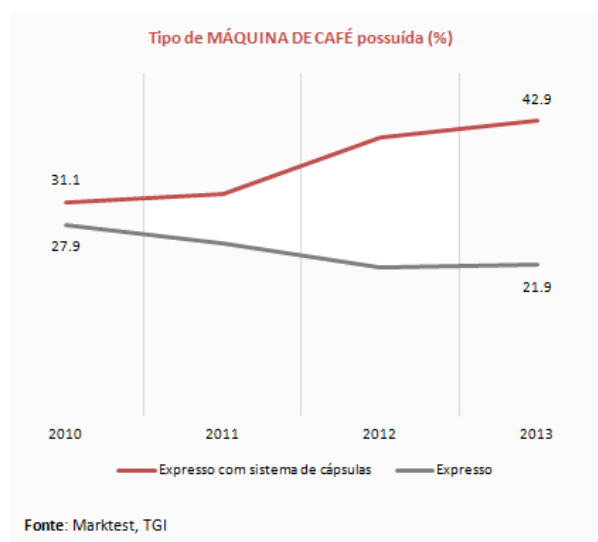
Graph 7- Sales in Quantity - Total Portugal – Roasted Coffee (ACNielsen 2016)



Graph 8- Delta Q Market Share in Volume- Total Portugal – Roasted Coffee (ACNielsen)



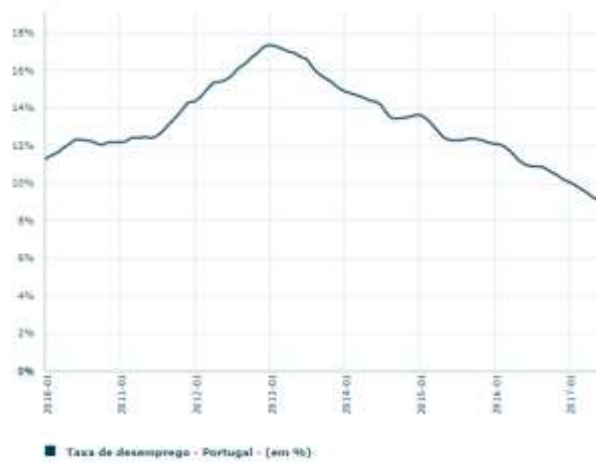
Graph 9- Delta Q Market Share in value - Total Portugal – Roasted Coffee (ACNielsen)



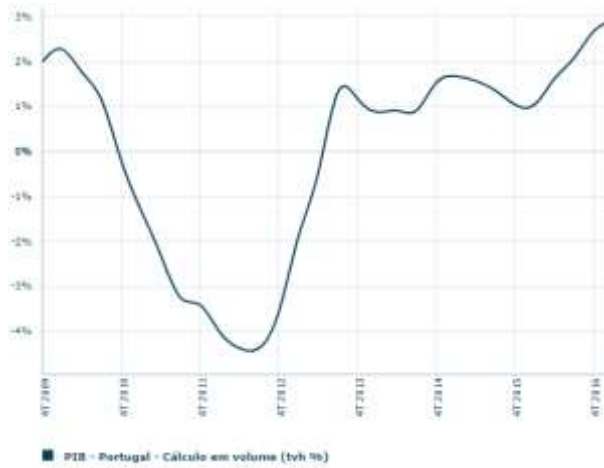
Graph 10- Type of Coffee Machines in Portuguese Homes (Marktest, 2013)



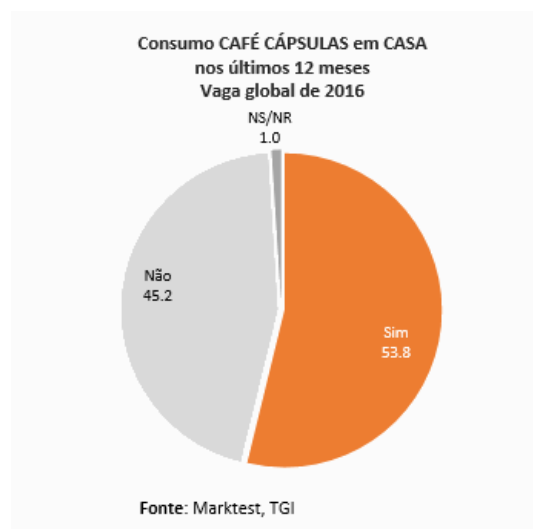
Graph 11- Coffee Market Value in 2012



Graph 12- Unemployment Rate (Banco de Portugal)



Graph 13- GDP in Portugal (Banco de Portugal)



Graph 14- In Home Capsules Consumption in 2016 (Marktest)

DELTA Q – a brand extension to compete in a new segment

1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	Média
3.6	4.1	4.3	3.8	4.3	4.2	3.8	3.9	3.7	3.8	3.9	3.7	4.0	4.2	4.7	4.0

Table 3- Portugal Coffee Consumption (kg) (International Coffee Organization: Tendências do consumo de café em países importadores seleccionados (2012))

LOCAIS DE CONSUMO DE CAFÉ NOS PAÍSES IMPORTADORES SELECIONADOS (CONTINUAÇÃO)
(em milhares de sacas)

Portugal	Total	Volume						Percentage shares					
		At-home			Out-of-home			At-home			Out-of-home		
		Store	Non-store	Subtotal	Chains	Other	Subtotal	Store	Non-store	Subtotal	Chains	Other	Subtotal
1997	603	213	0	213	5	385	390	35.3%	0.0%	35.3%	0.8%	63.8%	64.7%
1998	696	253	1	253	7	436	443	36.3%	0.1%	36.4%	1.0%	62.6%	63.6%
1999	737	271	1	271	7	458	465	36.8%	0.1%	36.8%	1.0%	62.2%	63.2%
2000	646	241	0	241	7	397	404	37.3%	0.1%	37.4%	1.1%	61.4%	62.6%
2001	745	281	1	281	12	452	464	37.7%	0.1%	37.7%	1.6%	60.6%	62.3%
2002	720	274	1	275	17	427	445	38.1%	0.1%	38.2%	2.4%	59.4%	61.8%
2003	657	254	1	254	19	384	403	38.6%	0.1%	38.7%	2.8%	58.5%	61.3%
2004	685	269	2	271	21	394	415	39.3%	0.2%	39.5%	3.0%	57.5%	60.5%
2005	656	259	2	261	21	373	394	39.5%	0.4%	39.9%	3.2%	56.9%	60.1%
2006	671	266	3	270	23	379	402	39.7%	0.5%	40.2%	3.4%	56.5%	59.8%
2007	684	269	4	273	24	386	410	39.3%	0.6%	40.0%	3.5%	56.5%	60.0%
2008	654	263	3	266	23	365	388	40.2%	0.5%	40.7%	3.6%	55.8%	59.3%
2009	709	293	3	296	25	388	413	41.3%	0.5%	41.8%	3.6%	54.7%	58.2%
2010	750	324	4	328	29	394	423	43.1%	0.6%	43.7%	3.8%	52.5%	56.3%
2011	834	386	5	391	31	412	442	46.3%	0.7%	46.9%	3.7%	49.4%	53.1%
Average	697	274	2	276	18	402	420	39.4%	0.3%	39.7%	2.6%	57.7%	60.3%

Table 4- Coffee Consumptions' Locals in Portugal (International Coffee Organization: Tendências de consumo de café em países importadores seleccionados (2012))

Quadro 1 - Projeções do Banco de Portugal: 2016-2018 | Taxa de variação anual, em percentagem

	Pesos	Projeção março 2016				BE dezembro 2015		
		2015	2015	2016 ^{pp}	2017 ^{pp}	2015 ^{pp}	2016 ^{pp}	2017 ^{pp}
Produto interno bruto	100,0	1,5	1,5	1,7	1,6	1,6	1,7	1,8
Consumo privado	65,9	2,6	1,8	1,9	1,3	2,7	1,8	1,7
Consumo público	18,2	0,8	1,1	0,4	0,6	0,1	0,3	0,1
Formação bruta de capital fixo	15,0	3,7	0,7	4,5	4,5	4,8	4,1	6,1
Procura interna	90,2	2,4	1,4	2,0	1,7	2,4	1,8	2,1
Exportações	40,5	5,1	2,2	5,1	4,8	5,5	3,5	5,1
Importações	39,5	7,3	-2,1	5,6	4,0	7,3	3,6	5,6
Contributo para o crescimento do PIB líquido de importações (em p.p.) ^{pp}								
Procura interna		1,1	0,9	0,8	0,7	1,1	0,9	0,9
Exportações		0,4	0,6	0,9	0,9	0,4	0,8	0,9
Balança corrente e de capital (% PIB)		1,7	2,9	2,3	2,3	2,4	2,5	2,3
Balança de bens e serviços (% PIB)		1,7	2,6	2,1	2,0	1,6	1,7	1,3
Índice harmonizado de preços no consumidor		0,5	0,5	1,4	1,6	0,6	1,1	1,6

Fontes: BE e Banco de Portugal.
 Notas: (p) - projeção; p.p. - pontos percentuais. Para cada agregado apresenta-se a projeção correspondente ao valor mais provável condicional ao consumo de melhores considerações.
 (ii) Os agregados de procura em termos líquidos de importações são calculados de acordo com a metodologia das importações necessárias para produzir cada componente. O cálculo dos contributos líquidos de importações foi feito com base em informação relativa ao ano de 2005. Para mais informações, ver a Caixa "O papel da procura interna e das exportações para a avaliação da atividade económica em Portugal", Boletim Conjuntura de Junho de 2014.

Table 5- Portugal GDP Projections (Banco de Portugal, 2016)

	Blends	Characteristics
Base Blends	Epiq Qharisma Qalidus Qharacter Aqtivus Qonvictus Qonvivim Deliqatus Deqafeinatus	Naturally Intense Naturally Intense Strong and Intense Full-Bodied & Sophisticated Young & Stimulating Balanced & Different Smooth & Relaxed Delicate & Enveloping Rich, Autentic Flavour
Specialities	Bio Qanela Uniq Uniq Deqaf Breaqfast Malay Cartagena Double Redespresso	Blend with Biological certification The perfect match between coffee and cinnamon The Commentator's coffee The Commentator's decaf The perfect mixture East Timor Colombia Natural energy booster Healthy & Exclusive
Infusions	Purify Tisana Refresh Tisana Delight Tisana Relax	Green tea Mint & Ginger infusion Rooibos infusion with Strawberry and Vanilla Camomile infusion with subtle notes of Peach
Cereals	Fusion Pure	90% Barley & Rye, 10% Coffee 100% Barley
Coffee with Cereals	Soft	A soft espresso, ideal to be enjoyed in the afternoon

Table 6- Delta Q Products Portfolio (The author, 2017)



Figure 1- Delta Q – capsules portfolio in 2007



Figure 2- Delta Q - machine portfolio in 2007



Figure 3- Delta Q redespreso - made by Rooibos

DELTA Q – a brand extension to compete in a new segment

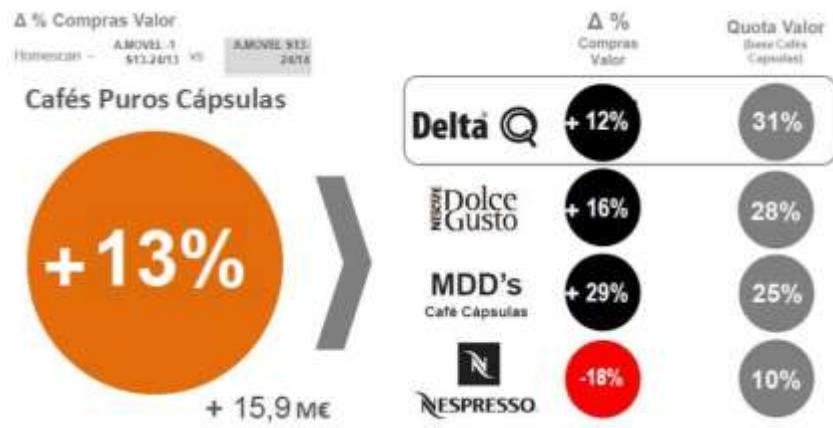


Figure 4- Coffee Capsules Market Shares in 2014 (ACNielsen - Information Provided by Delta)



Figure 5- Delta in the World (Relatório de Sustentabilidade da Delta)



Figure 6- Delta Q campaign with George Cloney's girlfriend – “Everyone deserves a unique coffee”



Figure 7- Delta Q Sales Promotion – “Offer of the machine's value in capsules”



Figure 8- Delta Q own stores

2. TEACHING NOTES

2.1 Target Audience

This case should be presented to marketing or business strategy students. It is most suitable for Undergraduate or Master of Science students, however could be used by other courses. The case contains marketing concepts and is based on the fundamental marketing principles, so it is suitable if students feel comfortable with some of those concepts.

2.2 Teaching Objectives

After doing this case study, the students should be able to understand a real business of Delta Q, taking in to account the problems and the adjustments in the brand strategy.

The case has the following pedagogic objectives:

- Give an overview of Portuguese coffee market and the main players
- Identify the economic and social factors that has a positive impact in the new segments in the market – Capsules
- Understand how to achieve competitive advantage and became a market leader, being a follower in the market
- Recognize the advantages and the risks of a brand extension strategy, looking for relations between causes and effects of taken that decision as well as learn which will drive success or failure and why;
- Understand the importance of brand loyalty and brand trust, and how to take advantage of long term relationships both with customers and suppliers;
- Figure out the weakness of Delta Q “premium positioning” in the launch moment;

2.3 Literature Review

2.3.1 Brand Concept

Kotler and Keller (2006) define a brand as "a name, term, sign, symbol or design, or a combination of them, intended to identify the goods or services of one seller or group of sellers, and to differentiate them from those of competitors."

That differentiation can be achieved in terms of the functional and tangible characteristics of the products and services being offered, but most of all, in terms of the more symbolic, emotional and intangible characteristics that the brand represents to its audiences. In fact a brand delivers a set of benefits, not only as a consequence of its perceived functional and rational attributes but also because of all the sensations, emotions, memories, "judgments", that are associated with the brand and which make it unique and irreplaceable.

Moreover, today a brand is considered to be an experience. Zyman (1999), best known for reinventing the Coca-Cola Company's marketing approach in his book *The End of Marketing as We Know It* says that "a brand is essentially a container for a customer's complete experience with the product or company." That's why a brand is everything a company says or does, its customer service, the whole array of its communication tools, its employees as brand ambassadors etc.

The new wave, as pointed out by Bonchek & France (2016) considers a brand as a real relationship - reciprocal, collaborative, and personal. It means that brands are no more being built only by the company but by all those that have interaction with it.

2.3.2 Brand Strategy

Importance of brands is increasing - "Brands are the most valuable assets many companies possess" (The Economist, 2014). Abimbola (2010) refers "the ability of brands to facilitate organizations' development, evolution and competitive advantage epitomizes the emerging role of brand strategy as an underlying resource that enables a firm to create, deliver and capture values faster than they can be competed away.

Effective brand strategy is, therefore, a methodological paradigm for explaining, facilitating and developing market-leading capabilities assets to firms.”

That’s why brands are more strategic than ever and brand strategy must be linked to business strategy. Brand strategy must be able to create strong brands (relevant, unique and credible) with their own identity (personality, values, reputation). Must be able to create positive attitudes and behaviors and build real solid relationships. Must be able to create value.

Moreover brand strategy has to enhance and support growth and development, ensuring that brands meet the objectives of the organization and inspire the building of its "future".

Organizations are increasingly involved in processes of diversification, globalization, conquest of new segments and new markets. Innovation, development and growth leads to the introduction of new products, new services, new features. How to brand them is a strategic decision that aims to articulate, reinforce and optimize the brand assets of the company or business area, it’s a key aspect of creating, maintaining, and enhancing brand equity.

2.3.2.1 Key elements of Brand Strategy

There are some very important elements to be considered in defining a brand strategy (Uggla & Filipsson, 2009; Taiwo *et al.*, 2016)

- Brand Mission – the reason for the brand to exist. The brand mission must represent not just an intent but a compromise to all its audiences.
- Brand Vision - what the brand wants to be and conquer in the future. It must open new ways, pointing directions to the future, inspire strategic decisions. It must be driver of innovation and change.
- Brand Values - a set of values shared internally that must guide the behaviors and relations of the brand and its collaborators with stakeholders. Basis of image building and brand reputation.

- Brand Personality – the personality and style that brand assumes when it relates with its audiences It must facilitate an identification with the brand, and create emotional bonds.
- Brand Position – explain what makes the brand different, better than competitors, unique. It represents the promise of an experience. It must be an offer of value.
- Brand targets – definition of its audiences and target markets.
- Brand scope – products and services to be offered.

2.3.2.2 Brand Architecture

A brand architecture strategy identifies which brand elements a firm chooses to apply across the various products and services it offers. A brand hierarchy reveals an explicit ordering, displaying the number and nature of common and distinctive brand elements across the firm's products. By capturing the potential branding relationships among the different products and services offered by the firm, a brand hierarchy graphically portrays a firm's branding strategy. One simple representation of possible brand elements and thus of potential levels of a brand hierarchy is: corporate brand, family brand, individual brand, and modifier. (Keller, 2008)

2.3.2.3 Brand Extension

According to Kottler (2000, cited in Hu, et al. 2010) there are different types of strategies to introduce a new product or service: brand extension, new brand and co-branding. Brand extension is one of the most frequently use (Barone, et al., 2000).

General knowledge defines brand extension as the “use of established brand names to launch new products” (Völckner & Sattler, 2006). And “when a new brand is combined with an existing brand the brand extension can also be a sub-brand” (Keller, 2008)

“An existing brand that gives birth to a brand extension is the parent brand. If the parent brand is already associated with multiple products through brand extensions, then it may also be called a family brand.” (Keller, 2008).

Still according to Keller (2008) brand extensions can be either a Line extension - when the parent brand is applied to a new product that targets a new market segment within a product category the parent brand currently serves; or a Category extension - when the parent brand is used to enter a different product category from the one it currently serves.

On their research, Desai and Keller (2012, cited in Sood & Keller, 2012) demonstrated the significant influence of parent brand name in the extension acceptance and the impact on its evaluation. Sood & Keller (2012) had shown that slight changes in extension brand name result in large changes in consumer's perceptions.

Brand Extensions come up with advantages and risks and all of them have to be carefully analyzed when deciding for this kind of strategy (Keller, 2008). Those advantages and risks involve both the brand extension and the parent brand

Main advantages:

- Facilitate new product acceptance – Improves brand image helping making inferences and forming expectations about the new product; reduce the perceived risk; increase the probability of gaining distribution and trial; increase efficiency of promotional expenditures; avoid costs of developing a new brand; permit consumer variety-seeking.
- Provide feedback benefits to the Parent Brand - clarify brand meaning; enhance the parent brand image; increase market coverage bringing new customers; revitalize parent brand (Mizik & Jacobson, 2008); permit subsequent extensions.

Main disadvantages:

- The extension can confuse or frustrate consumers; can fail and hurt parent brand image; can succeed but hurt the image of parent brand or obscure the brand's identification with its original categories, reducing brand awareness; can succeed but cannibalize sales of parent brand; can dilute brand meaning; can cause the company to forgo the chance to develop a new brand.

A way to decrease the dilution of the core brand in case of extension failure could be the creation of sub-brands. If customers are able to perceive the differences between the two brands, a bad feedback of the extension will have lower influence in the image of the parent brand (Milberg *et al.*, 1997, cited in Monga & Jogn, 2010).

Besides that, extending a brand with the creation of a sub-brand may have important advantages. A sub-brand can signal and reinforce that the parent brand is introducing something really new – new benefits, new features, a new technology, new ways of consuming, new consumer occasions, or others (Sood & Keller, 2012).

Otherwise a sub-brand makes it possible to have a more specific and targeted communication for the new product and gives some more freedom in the creation and management of touch points (different from those of the parent brand).

According to Völckner & Sattler's (2006) research, there are four groups of success determinants for brand extension:

- Parent Brand characteristics – opinions about the core brand will influence the evaluation and acceptance of the new launched product. Favorable associations and attitudes and positive relationships with the parent brand create liking to the extension and vice versa, leading to the same attitudes toward the core brand and the extension.
- Extension's Marketing Context - the marketing support is fundamental to the success of new products, it is a short term tool used to influence the success of brand extensions. The customers' perception or evaluation can be influenced by the repeated exposure to the extension's ad.
- Relationship between the parent brand and the extension product - the higher are the similarities between the extension and the existing products category, the higher is the success and acceptance of the extension.
- Extension's product category characteristics – the number of share associations between the core brand and the extension product

category has a strong impact on the evaluation that customers do of the extension.

The success of a brand extension had been related to a *fit* between the extension and the category. One common theme in past brand-extension research is that high perceived similarity, improves extension. Extension research has shown that perceived similarity can be defined not only in terms of tangible attributes but mainly in terms of intangible attributes and brand-specific associations unrelated to the category. In some instances, intangible attributes influence extension evaluations more than tangible attribute. Physical similarity is less important when the relationship between the parent and the extension is based on brand-concept and culture consistency (Sood & Drèze, 2006; Spiggle *et al.*, 2012).

Nowadays there are a lot of successful extensions launched in different categories and recent researches introduced other factors to explain this success. Monga & John (2010) refer brands flexibility or elasticity, which is the brand ability to launch products in different categories sharing few attributes and appealing different targets, as an important element for extensions triumph. This ability is determined by the parent brand concept and soul, and the consumer's style of thinking. For functional brands, holistic thinkers tend to be more favorable in brand extensions evaluation than analytic thinkers, once the second ones are normally more precise and critic, looking for dissimilarities between the brand and the extension. But the same does not happen for prestige brands, where holistic and analytic thinkers provide similar evaluation (Monga & John, 2010).

One way of increase the acceptability of extensions and reduce the risk of brand dilution present by Sood & Keller (2012) is the creation of a sub brand. In this case, customers are able to differentiate the two brands and negative feedbacks of one will not affect the other.

2.3.2.4 Positioning

We may define positioning as the way brands want to be perceived, differentiated and internalized by their consumers and other stakeholders.

Positioning as a concept was popularized by Ries and Trout in their book “Positioning - a Battle for Your Mind” (1986), in their perspective, create a brand position is to define a specific place that the brand will occupy in the mind of its stakeholders.

Over the years, with markets getting more fragmented and crowded with a lot of players and an incredible array of offers, companies have been struggling to create a substantial and beneficial difference over their competitors, leading marketers and advertisers to employ brand positioning strategies (Clancy & Trout, 2002).

According to Kotler (2003) to successfully position a brand it is necessary to create a focused value proposition - a unique, relevant and credible promise, a reason for why target markets must buy or consume the brand. Once established, that promise must be delivered across all brand touch points. Once established brand position must become a posture that should influence and direct all brand interactions with their stakeholders. (Akpyomare, et al 2013).

Of course a strong positioning strategy must be defined considering such factors as the competitive marketplace and the way competitors are positioned and perceived in there; the needs and characteristics of target stakeholders, the specific corporate and brand goals and all corporate and brand strength and opportunities as well as weaknesses and risks. (Akpyomare, et al 2013).

Through positioning, companies aim to increase consumer loyalty, shaping their preferences, and creating a willingness to search, (Schiffman and Kanuk, 2007 cited in Fuchs & Diamantopoulos, 2010), as well as they aim to create the foundations to build strong relationships.

In 2008 Blankson *et al.* verifies the impacts of positioning strategy on sales, profits, and return on investment. These are important measures of the financial performance sought by all companies. Therefore, a good understanding of what positioning involves is a key requisite for brand development (Dinnie, 2008), as its decision is both strategic to the company and fundamental to consumer’s perceptions and preferences.

2.3.3 Brand Equity

Today brands are recognized and managed as valuable and strategic assets. Brand equity is the intangible asset that a brand really is. It is the potential value a brand represents.

There are two different ways of looking to brand equity: a financial approach and a customer-based approach (Altigan, et al., 2005).

According to a customer-based approach Kotler & Keller (2006) define brand equity as “the added value endowed to products and services”. This value lies in the thoughts, feelings and actions that consumers will have about the brand, and that are going to be reflected in brand performance. This reflects the belief that “*the power of the brand lies in the mind of existing or potential customers*”. Positive brand equity occurs when customers respond more favorably to a branded product than to an unbranded one, which will be reflected in higher market share, easier acceptance for brand extensions, lower costs and profitability (Keller, 2003, cited in Atilgan, et al., 2005). The intent to a brand is to develop positive customer-based brand equity over time, leading to several advantages for the company (Keller, 2003, cited in Atilgan, et al., 2005).

There are a lot of different type models trying to explain and evaluate the brand equity. The most known is the one proposed by Aaker (1991, cited in Green, 2010), who considers the existence of four main drivers to brand equity: perceived quality, brand awareness, brand association, and brand loyalty.

Brand equity plays an essential role in terms of strategic management decision (Atilgan, et al., 2005). Brand equity is the result of all brand strategic decisions and tactics.

2.3.4 Customer-Brand Relationship

Nowadays, with the technologic advances and with the market massification, companies are not able to compete regarding price, quality or customer’ satisfaction, once most of the offers are similar. So managers saw the need to build strong

relationships with customers to achieve sustained competitiveness (Alqahtani, 2011; Carter, 2008; Circles, 2010; Hess & Story, 2005; Kotler & Armstrong, 2010; Louis & Lombart, 2010; Schraft & Micu, 2010, cited in Zainol *et al.*, 2014).

The concept of customer-brand relationship has gained a huge amount of importance in the last 15 years. Companies are beginning to try to understand how they can create relationships with their customers; why some brands are preferred to others; and implementing customer focus strategies. To better understand this field is important to know something about the customer relationship management (CRM). It is used to create loyalty, to retain and to maintain clients through long term relationships (Loureiro *et al.*, 2012). To reinforce the importance of strong customer-brand relationships, Kotler and Keller (2006) also mentioned that the cost of attracting new customers is estimated to be 5 times the cost of retaining current customers and keep them pleased.

Brand loyalty, in the past, was linked only with repeated purchases. Recent researches had concluded that loyalty should be seen in two different approaches: attitudinal and behavioral loyalty. The first focus preferences, intentions, commitment and value dimensions; and the other is related to repeat purchase (Cifci & Erdogan, 2016)

Kimmel (2010, cited in Cifci & Erdogan, 2016) define brand loyalty as a “*pattern of repeated purchases with a positive attitude towards the brands*”, and it leverage loyalty for two components: repeated purchase behavior and commitment by a strong attitude or liking for the brand.

Generally, relationship marketing is “a concept which is based on the premise that developing and fostering strong customer brand relationships through the identification of key relational mediators positively influence business outcomes” (Bowden, 2009). It has been shown that the creation of a sustainable competitive advantage is achieved by and inherently linked to positive marketing outcomes, such as “intention to repurchase”, “positive word of mouth”, “referral” and “attitudinal and behavioral loyalty”. These outcomes are naturally associated with satisfaction, commitment, and trust.

- Satisfaction comes from a result of a comparison between the product performance and the consumer expectations. High level of satisfaction can increase profits, recommendation, repurchase and customer loyalty. Customer satisfaction leads to more effective and enduring loyalty in customer subjects. Satisfaction can be said to signify a fulfilled state of consumption requirement, itself being indicative of a state of emotional commitment drawing into loyalty (Bowden, 2009).
- Commitment is related with the customer willingness to maintain a relationship which is likely to provide him functional and emotional benefits. It leads to two main forms of customer association to the brand: “calculative commitment” and “affective commitment”. Calculative refers to a product benefits due a lack of choices or switching costs, it means the evaluation of gains and losses in case of finish a relationship. Affective is more emotional and is related to the consumer involvement with brand (Cifi & Erdogan, 2016; Gustafsson *et al.*, 2005).
- Trust, in a brand context, is related to security feelings, to brand capacity to meet customer’s needs. Trust image is built with consumers experiences with the brand. These experiences can be trial, consumption, usage; but also indirect contacts, such as advertising or brand reputation. The overall satisfaction and the involvement represent an important role in brand trust (Delgado-Ballester & Munuera-Aleman, 2001)

2.3.5 Competitive Advantage

Nowadays markets are very dynamic, characterized by innovation, technological developments, digital revolution, interaction and sharing. As a result competition is intense and is increasing. Companies have to work hard to be distinctive from their competitors and to be unique in the market, in the sense of having special attributes that consumers recognize as important and that cannot be easily offered by other competitors.

Kotler & Keller (2006) define competitive advantage as “*a company’s ability to perform better, in one or more ways that competitors cannot or will not match*”. They

also mention that any competitive advantage should be seen in a customer perspective, meaning that competitive advantages must be based on what brings value to customers and increase their satisfaction level. If the competitive advantage is not seen as an advantage from consumers, it will not represent an advantage for the company. Kumar & Pansari (2016) reinforce and enlarges that idea showing how important it is for firms to keep their customers engaged to achieve a competitive advantage. For those authors employee engagement is another important drive for competitive advantage.

Zhao et al. (2015, cited in Davcik & Sharma, 2016) discuss the prerequisites for the first product launch success and the relationship to available firm resources, and investigate how product-positioning strategy may mediate the impacts of marketing resources, technical resources, and founding team startup experience on product success.

Ideally a Competitive advantage should become a sustainable advantage. To achieve this goal brands have to work hard in an ongoing process. For example, the momentary monopoly obtained by the introduction of a new product/process should be changed into something sustainable in the long-term (Kaličanin, 2008).

2.3.5.1 The concept of being Pioneer

When talking about competitive advantage it is really important to consider the concept of being pioneer in the market. This can bring competitive advantage in the market. “A Pioneer brand is likely to become a prototype and a standard of comparison for a product category” (Carpenter & Nakamoto, 1989 cited in Chang & Kukar-Kinney, 2007). The success of the pioneer brand depends on establishing or defining a new category, and consequently becoming a symbol or a reference for the whole category (Chang & Kukar-Kinney 2007).

To be a Pioneer produces some advantages, mainly the monopoly that the brand has in the beginning. One of these advantages comes from the innovation, which provides the company the opportunity of charge higher prices and maximizes its profits (Kaličanin, 2008).

Another advantage of a market pioneer can be related to the reduction of costs through the control of new technologies and distribution channels. Brands can be able to take advantage of economies of scale. In conclusion, it can also produce a positive effect on the image and reputation of the company, creating the possibility of developing a good base for loyal customers (Thompson & Strickland, 2003 cited in Kaličanin, 2008).

However, this market position also presents some disadvantages. When the company is the first to launch a new product or service, it faces high risks and costs. As the first, it needs to deal with the uncertainty of the market/demand and the acceptance/rejection of the product, having costs to educate customers about its launched (Lieberman & Montgomery, 1988 cited in Kaličanin, 2008). On the other side, the followers can learn with the pioneers and present less vulnerability.

2.4 Methodology

This case study has two different approaches in terms of analyses: quantitative and qualitative, since both parts complement each other and take value in the analysis of the case.

A quantitative analysis was used mainly to define and evaluate the coffee market, based on studies by AC Nielsen, European Coffee Federation, AICC, Marktest, HiperSuper, Large Consumption. At the main market indicators that were analysed were:

- Market shares
- Weight of the 2 main segments of coffee consumption: "out of home" and "in-home"
- Growth rates of capsules segment
- Penetration of coffee machines in Portuguese homes

On the other hand, a qualitative analysis has the objective of completing quantitative information, consolidating the fundamental concepts and the theories presented throughout the case. This analysis was done based on scientific articles from academic journals available on B-On (platform provided by ISCTE), and also from a books research. Being a case study with abundant available information about the market, the consumer, the company and the competition, there was no need to make primary research.

2.5 Case Study Lecture Plan

Before the in-class discussion, the case should be delivered to students for individual reading and a main topics review, through textbook or articles. In the first part of the in-class discussion the professor should also provide a quick overview of the marketing concepts present in the case, allowing the student to raise questions about the theoretical part. After it, work groups should be formed to discuss and compare their perspectives and propose solutions for the questions. Later, every group should present to the class its solutions and opinions concerning the case.

Session	Objectives	Activities	Time
1 st Session	<ul style="list-style-type: none"> • Present the case study • Raise interest about the case • Make an introduction to Portuguese Coffee Market • Make an introduction to brand strategies 	<ul style="list-style-type: none"> • Deliver the case to students • Summarize the case done by teacher • Framework capsules segment into coffee market • Explain brand extension concept and the importance of targeting and positioning • Visualize Nespresso and Delta Q videos 	90'
Out of Session	<ul style="list-style-type: none"> • Understand the case study and the new segment in the market 	<ul style="list-style-type: none"> • Individual case reading • Coffee market an competitive analysis 	60'

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	<ul style="list-style-type: none"> • Review main concepts presented in the case and in 1st class • Propose answers to first and second questions 	<ul style="list-style-type: none"> • The “In-Home” and capsules segment analysis • Advantages and disadvantages of brand extension strategy 	
2nd session	<ul style="list-style-type: none"> • Review the case study and the Portuguese coffee market • Answer to the first 2 question • Split the class into work groups 	<ul style="list-style-type: none"> • Join discussion about the case • Characterize coffee market and identify the external factors that boosted capsules growth • Define brand extension advantages and risks and how did it run for Delta Q 	90’
Out of session	<ul style="list-style-type: none"> • Propose answers for the remaining questions, in work groups • Prepare the case presentation for next session 	<ul style="list-style-type: none"> • Analyse all the information presented in the case study • Evaluate the benefits of being pioneer in a market • Compare Nespresso and Delta Q brand strategies • Identify distribution channels and how they could be a competitive advantage 	180’
3rd session	<ul style="list-style-type: none"> • Each work group presents a proposal resolution • Discuss and clarify any doubts of the class 	<ul style="list-style-type: none"> • 15 minutes for each group to present the case study • Join discussion about proposal solutions • Main conclusions presented by teacher 	90’

2.6 Lecture Plan Questions

1. Characterize the Portuguese coffee market and the capsules segment. Comment how Portugal economic situation has been influencing the capsules segment.
2. Delta Q Cafés Company is the market leader in Portuguese coffee market. To launch its new coffee capsules product, Delta opted for a brand extension strategy and created Delta Q. What are the main advantages of this strategy?
3. What are the main advantages for Nespresso in being the pioneer on coffee capsules segment?
4. What are the main points of difference between Delta Q and Nespresso?
5. Regarding the constant innovation of Delta Q and taking into account the market trends and the “in-home” coffee consumers behavior, please identify the future opportunities for Delta Q business growth.
6. The capsules segment has been growing fast. What are the major trends for Delta Q brand?

2.7 Case Proposal Resolution

- 1. Characterize the Portuguese coffee market and the capsules segment. Comment how Portugal economic situation has been influencing the capsules segment.**

Coffee industry has been increasing and gaining weight over the past years and expectations are “that consumption will continue to growth”. In 2016 the Portuguese coffee market reached the value of 484 million euros, which represents a growth of 3.7% face to 2015.

The market is split between Roasted & Ground and Instant coffee. Roasted & Ground holds 85.3% of coffee consumption in Portugal, while Instant Coffee represents 14.7%.

Coffee plays an important role in Portuguese society. It is a traditional habit making part of day life and it has a strong social component - it's a way to meet friends, to

talk, exchange ideas, make a break or just go out. 80% of Portuguese people drink coffee on a daily basis. Each Portuguese drink on average 4.7kg of coffee per year, which represents 2.2 cups of coffee per day. It's below from European average once in Portugal the most common coffee beverage is the "espresso" - small cups of coffee with 50ml, and in the rest of Europe people use to drink bigger cups with more diluted coffee.

Taking into account the local of coffee consumption it is possible to identify two distribution channels: "out of home" and "in home".

In Portugal, "out-of-home" consumption is predominant, however, by 2012, 75% of Portuguese people with more than 18 years old already used to drink coffee at home. Besides the "in home" segment has been winning weight over the last years and it's now driven by capsules. Capsules system is considered the most popular for "in-home" consumption.

The capsules segment was born with Nespresso "a simple but revolutionary idea: enable anyone to create the perfect cup of a coffee espresso at home". Nespresso entered in Portugal in 2003 and during the first 3 years was the only player in that segment. In 2007, Nestle Dolce Gusto and Delta Q entered in the capsules segment, selling both capsules and coffee machines in the retailers (hyper + supermarkets).

In the following years, small Portuguese brands and private labels appeared, with capsules' system offers at lower prices and increasing competition. Capsules became a luxury affordable to all social groups.

In 2013, this segment reached a 50% penetration rate in Portuguese homes with an average purchase frequency of 7,4 times per year.

The economic crisis Portugal passed trough also impacted the increase of "in-home" consumption. Households had fewer budget available, VAT for restaurants increased from 13% to 23%, damaging the on-trade channel and in turn benefiting the consumption at home.

Today the VAT decrease again to 13%, and many specialists see this as an opportunity for Horeca channel to recover.

2. Delta Cafés Company is the market leader in Portuguese coffee market. To launch its new coffee capsules product, Delta Cafés opted for a brand extension strategy and created Delta Q. What are the main advantages of this strategy?

Delta Cafés is leader in Coffee market and has been building solid and long-term relationships with their customers and suppliers. The brand has a strong equity (high visibility and familiarity among stakeholders, relevance, positive associations, high perceived quality, a good reputation, and strong relationships with stakeholders) adding value to the company's offer and being considered a competitive advantage.

To launch its new coffee capsules product, the company opted for a brand extension strategy to capitalize on that valuable asset which is Delta Cafés brand and at the same time with the objective to reinforce and increase Delta Cafés' brand equity.

This strategy comes up with advantages both for the brand extension Delta Q and the parent brand Delta Cafés.

For the brand extension Delta Q, the main advantages of that strategy are:

- The use of Delta Cafés brand awareness to promote awareness and visibility for the new product;
- Enhance familiarity with the new product;
- Facilitate new product acceptance from consumers and distributors, giving guarantees of quality and credibility and reducing the perceived risk;
- Share the positive associations, feelings and attitudes originated by the parent brand Delta Cafés;
- Avoid costs of launching a new brand.

And there are also important advantages for the parent brand Delta Cafés that arise from that strategy, namely:

- Reinforce its position of leader. Being the number one brand in Portugal for several years, it is imperative to be present in the new capsules segment using the name “Delta”.
- Approach to a new target of high-end consumers that lack relation with the mainstream brand Delta Cafés but recognized its quality attributes in the Portuguese market.
- Reinforce Delta Cafés image in attributes such as innovation and that of a brand that matches the cosmopolitan and contemporary lifestyle.
- Engage customers, enhancing the experience of preparing and enjoy a coffee espresso of great quality at home, with family or friends. Reinforces relationships with customers, old and new ones, through the relationships established by Delta Q

3. What are the main advantages for Nespresso in being the pioneer on coffee capsules segment?

We can say that Nespresso achieved competitive advantage through innovation. Nespresso developed a very innovative technology for the production of espresso coffee, creating the new category of individual-portion coffee and a new market segment, the capsules segment. At the same time Nespresso launched a new trend of preparing and drinking the perfect “espresso” at home. That way Nespresso changed the market “rules of the game”.

As a pioneer Nespresso had the opportunity to join a “gourmet” sector, not yet explored by competitors, being able to achieve an initial monopoly position. The monopoly position gave the brand the chance to practice higher prices and to opt for own distribution channels (physical and digital) – the possibility of selling in its own stores, with an exclusive and personalized service – achieving higher margins.

Nespresso tried to hold that position with the establishment of patents and the contest of a great number of copy-cats products, resisting, and creating barriers at the entrance of competition. That way Nespresso won a large market share, getting new consumers for its capsules system at a fast pace.

Otherwise, in a market such as Coffee Capsules, that forces an initial investment in the coffee machines, to be a pioneer brings some other advantages - brand exchange is less volatile due to initial fixed costs and customers tend to be more loyal.

Nespresso entered in Portugal in 2003 being the first player in the capsules segment and the only one during three years. Delta Q appeared in 2007.

However there are several risks being the first in a new market segment and Delta Q took some advantage of its follower position, learning from other established brands.

4. What are the main points of difference between Delta Q and Nespresso?

Both Delta Q and Nespresso are part of strong and known companies in Portugal and in the coffee industry.

Nespresso was the first brand entering in the capsules segment, positioning itself in a “premium” segment, targeting a very specific and exclusive group of consumers: “Well educate, 35-45 years old men and women, who enjoyed drinking restaurant-quality espresso at home”. The brand aims to convey quality, perfection and luxury, offering the most glamorous way of drink a coffee espresso. Their customers are normally influenced for the brand prestige.

Nespresso strategy demonstrates the brand intend of not being accessible for everyone. This is visible its whole marketing mix, which reflect the position of a luxury brand targeted to a high and exclusive target. The brand is the most expensive one in capsules segment. Nespresso only sells its capsules in its own branded boutiques and online. Its distribution is exclusive with a few points of sales. At the launching moment it only had 2 boutiques in Portugal. Nowadays it has already 15, concentrated in big cities. Online channel had only achieved a penetration of 8% in Portuguese households in 2016.

Delta Q entered in this market as a follower but quickly understood the importance of covering a higher number of costumers, focusing the brand to new targets with a much larger dimension and potential. Delta Q is characterized for its vision of democratizing coffee, “giving access to quality coffee to everyone, everywhere”.

Capsules were developed to meet all the favorite tastes of Portuguese coffee consumers. Moreover its positioning strategy became aspirational, its value offer being “...the perfect coffee to unique moments at home, bringing to customers the sophistication, passion and pleasure of the best espresso coffee.”

According to that strategy, the brand opted for an intensive distribution, selling both capsules and machines all over the country in super and hypermarkets, instead of being restricted to a particular channel as Nespresso. Also Delta Q decided to set prices slightly below Nespresso.

Distribution strategy can be considered the main point of difference between the two biggest brands in this market segment. Those differences in distribution reflect the different brand strategies mainly in terms of brand targets (high and exclusive in case of Nespresso and “democratized” in case of Delta Q) and positioning (luxury brand in case of Nespresso and emotional, closed to consumer brand in case of Delta Q). The Delta Q distribution system covering super and hypermarkets all over the country was made up a competitive advantage for Delta Q through its brand strategy.

5. Regarding the constant innovation of Delta Q and taking into account the market trends and the “in-home” coffee consumers behavior, please identify the future opportunities for Delta Q business growth.

Delta has always been known for its innovation capacity and its proximity to consumers, as a way to better understand their needs and offer new solutions. The company’s entry into the Capsules Market, with Delta Q, followed that path. Constant innovations in its portfolio have been a way to build brand value driven growth.

According to the study of Kantar Wordpanel (2014), coffee in capsules is highly present between adults and active population, but other targets can be explored: senior and younger groups of consumers. Even children can be a new target for capsules. According to its positioning - "Vive mais" (Live more) Delta Q wants to be present and involved with all life moments and so the offer of products for the whole family could be a future opportunity.

Coffee capsules consumption occasions are very connected to meal moments. Kantar Word panel revealed that at mid-morning, consumers usually opt for milk, teas and infusions or juices. Offering products to cover this demand, Delta Q will be able to increase consumption occasions and, therefore, grow sales.

But there are more factors in consumer behavior that can be seen as opportunities for Delta Q's business, such as the concern about health, the growing demand for natural and organic products, and consumer willing to pay more for premium goods or products with extra benefits. Delta Q could bet on launching functional coffees with calcium or vitamins, organic coffees, or more premium coffees with different flavors like the already launched coffee with cinnamon- blend. It will help company to growth in value and probably to conquer new consumers.

6. The capsules segment has been growing fast. What are the major trends for Delta Q' capsules system?

The capsule segment has developed a lot in recent years, and has become a very attractive market. The economic crisis experienced in Portugal in recent years has boosted the growth of this segment, since a large part of outside home consumption has been replaced by home consumption.

But the crisis has also led to a decline in purchasing power making consumers more price-sensitive. Price has become an important drive for brand choice and purchase process. Sales in promotion has reached record levels over the last few years, and consumers are always looking for the best deals, even opting to wait for a cut price promotion to make their purchase.

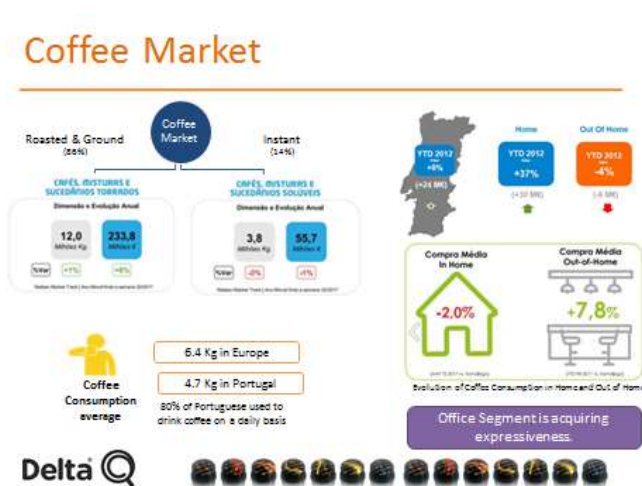
The demand for lower prices and the observed growth of the segment have made it very attractive to new brands and private labels. They entered in, offering not only their own machines and capsules, but also capsules compatible with existing capsules system machines, at very competitive prices. Here, it is important to mention Pingo Doce that offered the first capsules machine under € 50. Continent appeared two years later offering both its own capsules system machine, and capsules compatible with Nespresso system. Nicola, a reference brand in cafes in Portugal, opted to enter the

market only with capsules compatible with Nespresso. In recent years, we have seen the appearance of several capsules compatible with manufactures' capsule system, such as Dolce Gusto and even Delta Q. These entries could represent a risk to Delta Q.

Increasing concerns about environment and the demand for more eco-friendly products can also be a threat to Delta Q and the capsule business. Capsules are essentially made of plastic, not easy recyclable, and they make it difficult the reuse process of coffee grounds. According to IOU, Germany has already begun to ban the purchase of coffee in capsules by public offices because of the waste it causes and the negative impact it provokes on environment. This measure is an alert for companies which should start to think about more ecological capsules solutions.

Last but not least, the climatic conditions have not helped the coffee agricultural production, which cannot keep up with the increase in global consumption. To avoid future shortages, it needs a new large producer as Brazil.

2.8 Case Resolution Slides



Capsules Segment



The Capsules concept was born in 90's with Nespresso and entered Portugal in 2003



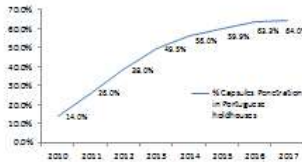
"Enable anyone to create the perfect cup of espresso coffee in the comfort of one's home"



It started as a premium niche market, focused in high targets



In 2016, capsules already represented 60% of coffee consumption at home



Capsules segment has developed with new technologies, new products and new brands, filling the office and at home markets.



Consumer Behaviour

Impact of Economic & Social factors



Economic Factors:



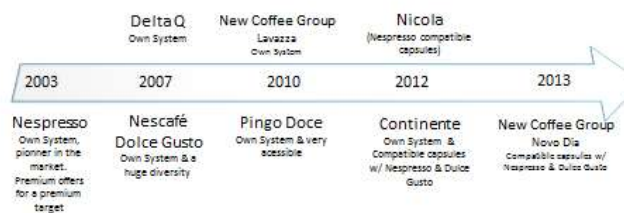
Social Factors:

- Economic crisis & austerity measures decreased buying power leading to a in home consumption
- Restaurants VAT increased from 13% to 23% moving out-of-home consumption to in-home
- Economic recovery and an increasing consumer confidence are contributing to the acceleration of consumption

- Consumption as an experience
- Focus on confort, personalization & enjoyment
- Sustainability concerns & green attributes
- Health
- "democratization of luxury goods"



Main Players/Competitors



- Starbucks appears in 2018 offering capsules compatible with Nespresso system.



Brand Extensions

Brand extension is a strategy that “use of established names to launch new products” (Völkner & Sattler, 2006)

Advantages for new brand:

- Capture the brand awareness and visibility of Delta Cafés
- Provide familiarity and new product acceptance to consumers and distribution
- Positive associations from Delta Cafés:
 - Credibility
 - Quality recognition
 - Customer relationship
 - Friendly brand
- Lower costs of launching & managing the new brand

Advantages for parent brand:

- Strengthen leader position
- Promote Delta Cafés image as innovator
- Reinforce relationship with customers, namely in B2C markets
- Proximity with new targets



Brand Extensions

Brand extension is a strategy that “use of established names to launch new products” (Völkner & Sattler, 2006)

Hypotetical Risks:

- Hurt the image of parent brand
- Canibalize sales of the parent brand
- May not signal the introduction of something new
- Lack of freedom in the target and communication of the product

A sub brand to overcome some of the risks

- Signal and reinforce the introduction of new benefits, new features, new technology
- Makes it possible to have a more specific target and communication
- More freedom in the creation and management of touchpoints



Pioneer Concept

The success of the pioneer brand depends on establishing or defining a new category, and consequently becoming a symbol or a reference for the whole category (Chang & Kukar-Kinney 2007).

Advantages of being pioneer:

- Join and explore new market segments
- Be a reference for the category
- Monopoly position – large market shares & higher prices
- Create patents that represent barriers from competition entrance
- Brand Loyalty
- In Nespresso case, less brand exchange volatile (hard to transfer to another brand)



Delta Q – Brand Strategy

Positioning

Creating a substantial and beneficial difference over its competitors.
Relevant and credible promise.



Quality, Sharing, Simplicity

Aspirational positioning: "the perfect coffee to unique moments at home bringing sophistication, passion and pleasure"

Covering a great number of customers
Democratizing coffee, giving access to quality coffee to everyone, everywhere
"medium-high class"

Quality, Perfection and Luxury

Offer a sensorial experience, a lifestyle, made of the highest quality coffees, innovative stylish machines and exclusive and personalized services

Exclusiveness target

"Well educate, 35-45 years old men and women, who enjoyed to drink restaurant-quality espresso at home"



Delta Q – Marketing Strategy

Marketing Mix- Distribution

Distribution reflects brand positioning and became a competitive advantage in capsules market through the distribution channel of Delta Cafés.



Intensive distribution strategy

All over the country through supermarkets & hypermarkets
Own Stores & channels (online)

Exclusiveness distribution strategy

Own stores & channels (online & phone line)



Delta Q

Opportunities and Treats for business growth

- Explore new targets, namely seniors and younger groups of consumers
- Offer products for the whole family expressing its position "Vive mais" being present and involved with all life moments
- Increase consumption occasions
- Health products
- Sustainable products

- Price- sensitive consumers
- Sales promotion dependency
- New brands and private labels
- Compatible capsules
- Possible future shortages in the offer of coffee
- Ecological demands



Key Findings

- Economic and Social context affect the consumer behaviour and its loyalty to the brands. Nowadays consumers are more demanding and informed through the mobile devices.
- Sales promotions has been a strong driver for purchase during last years and achieved a peak in 2017. Although customers are willing to pay more for premium or sustainable products.
- A brand extension strategy can bring advantages and risks both for extension and parent brand. The fit between them, the marketing context and the parent brand characteristics have impact in strategy' suces.
- In a massificated and so competitive market , positioning should be a diferenciator and it must be credible and reflect the real offer. The marketing strategy and the Mix should be aligned with the positioning and must be a competitive advantage.
- Innovation as a key driver for suces - The best way to remain competitive is to offer differentiated value propositions every day to consumers



2.9 Case Conclusions

Over last years the coffee industry has evolved and undergone a vast number of changes regarding consumers demand, namely in terms of consumption local and occasions. Companies need to be able to quickly anticipate and respond to these changes.

Delta Cafés is the market leader in Portuguese coffee industry and it was facing a challenge from a strong competitor, Nespresso, and its capsule system innovation. Delta quickly took action to enter in the new growing segment of coffee capsules.

Since Delta Café's entrance in coffee industry, the company has been focused on Business-to-Business reaching a strong position in the Horeca channel. But capsules segment required a different approach concerning the marketing strategy and communication, once it is completely oriented to final consumers. To compete in this segment, the company introduced in 2007 a new brand "Delta Q", with the aim of creating something different from the competition to win competitive advantage and conquer the leadership position.

Taking into account the several advantages of being linked with the core brand Delta, the company opted for a brand extension strategy. The high brand equity and the high confidence rates of the parent brand would be indirectly reflected in customers perceptions of the new Delta Q brand.

Being a follower in the market is never easy and represents a lot of challenges, mainly when competing with a strong brand such as Nespresso. Since its launch, Delta Q has been growing achieving its actual market leader position.

First positioned in a "premium" segment as Nespresso, and oriented for an exclusiveness and elegant target, Delta Q quickly found an opportunity to address its products to new targets, taking advantage of the fast market grow and the increasing consumer interest and acceptance of coffee capsules. That way Delta Q decided not to compete directly with the main player in a high and exclusive segment and focused on

new targets, democratizing capsules coffee consumption and being positioned as an emotional and close to consumer's brand.

Investments in communication have been proving very important to compete with Nespresso that spent a lot on it and had George Clooney, a famous actor, as brand ambassador. Communication increases brand awareness and the willingness of product trial. Otherwise it is a way to communicate the brand experience promise and its value offer. A way of building the brand style, personality and values.

DeltaQ choice for an intensive distribution policy based on retailers all over the country, an important point of difference from its main competitor Nespresso, brought him a competitive advantage, making the brand available everywhere to everyone.

In recent years, with the boost of this segment, more and more brands entered the market. Private Labels, such as Pingo Doce and Continente, have done it with a lower price strategy. Simultaneously other known brands appeared offering compatible capsules threatening Nespresso, Dulce Gusto and Delta Q sales.

Through constant innovation, the company has been able to compete and maintain its leader position in the market. We can say that a driver of success in the coffee market is about keeping focus on consumers, anticipating needs and trends, building strong and interactive relationships and offering really valuable and differentiated solutions.

And a key driver of success in any market is about creating the “right” brand strategy, and implementing it in a consistent and coherent way through all the brand touchpoints, including all marketing mix elements.

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