

Nutripremium

Topic	Difficulty	Style
Market analysis, Market entry, Market sizing	Advanced	Candidate-led

Case Prompt

Nutripremium is a very well-known premium **nutrition food** company in **Europe (€1 billion** revenue last year). It is based in Spain and has an excellent **market share** not only in its **home country** but also in **Portugal, France, Italy** and **Germany**.

Nutripremium has **two main lines** of products:

- Vitamin-supplements for **pregnant women**
- Concentrated dehydrated aliments and vitamin pills for **sick patients** (with Diabetes or Cancer).

The CEO of Nutripremium thinks that the market in Europe is starting to get saturated and wants you to analyze the **Chinese** market.

What are the **key areas** you would explore to determine whether this is a good idea?

Overview of all exhibits

Target market in China

	Consumer of special nutrition foods [% of pot. cust.]	Yearly increase of #customers [%]	Current average expenditure per customer per year [€]
Pregnant women	10	25	150
Sick patients (cancer or diabetes)	10	15	300

Table 1 – Market for special nutrition foods in China

Competition environment

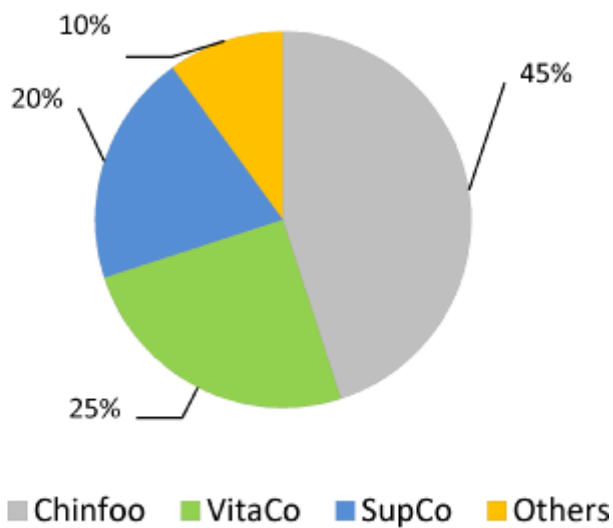


Diagramm 2 – Market share of main competitors

Competition environment

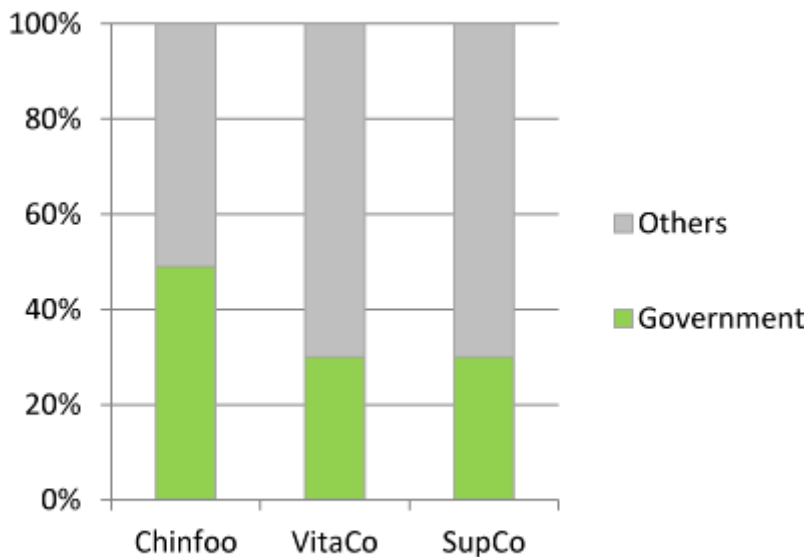


Diagram 3 – Shares of the government at the different competitors

Sample Structure

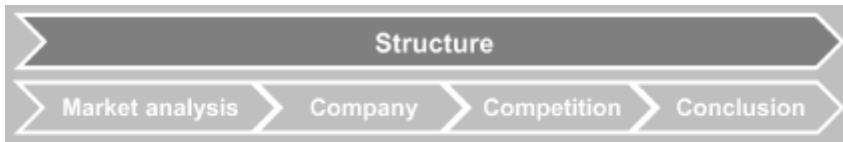


Diagram 1 – Case structure

I. Market Analysis

Additional Information

Note for Interviewer

Share **Table 1** with the interviewee and ask him to calculate the potential market for **pregnant** women products and for **sick** patients.

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Table 1 – Market for special nutrition foods in China

Solution

Here the interviewee should dive into the **potential** of the new market.

- **Usage** of such **products** by customers
- **Willingness to pay** by customers
- **Total market size** for each of Nutripremium's product lines
- **Customer segments**
- Market **trends**

With the given information it should be possible to estimate the total market:

Pregnant women market

Assume that, on average, a Chinese woman has 2 babies in her lifetime (pregnancy: 18 months = 1½ years).

If we assume a life expectancy of 75 years, then we have on average **2%** of all female population pregnant at a given time.

Percentage of female population pregnant at a given time

$$\frac{1\frac{1}{2} \text{ years}}{75 \text{ years}} = 2\%$$

Total market for pregnant women

Assuming the population of China has 1.5 billion people and that 50% of the population are women, we then have **15 million pregnant women**.

Out of these, only **10%** consume special nutrition foods, i.e. **1.5 million** women.

$$1.5 \text{ b} \times 50\% \times 2\% = 0.015 \text{ b} \times 10\% = 0.0015 \text{ b} = \mathbf{1.5 \text{ m}}$$

With an average expenditure of **€150** per **woman** per **year**, the total market for pregnant women is then **€225 million** per year.

$$1.5 \text{ m} \times \text{€}150 = \mathbf{\text{€}225 \text{ m}}$$

Sick patients market

Using a similar estimation strategy, we can assume that on average **2%** of the population has cancer at some time in their lives and on average for a duration of **5 years** (after that they either are cured or passed away).

We have then, at a given time around 0.13% of the population sick of cancer (2% of (5 years/ 75 years)), around 2 million people.

To simplify the calculation, we assume **10 times** more people have diabetes, i.e. **20 million** people.

So we have a total of **22 million** sick people. Out of these, we assume that about 10% of sick patients actually use special nutrition products. The total market is then:

Total market for sick patients

$22 \text{ m} * 10\% * 300 \text{ €/person} = \text{€660 m}$

The total market for sick patients is €660 m per year.

The interviewee should also come to the conclusion (by asking whether the customers in China would like to buy the same product sold currently in Europe) that **new types of products** would need to be **created** to **suit** the Chinese **taste**.

The cost for this would be around **€2 m**.

II. Company

Additional Information

Information that can be shared if the interviewee specifically asks for it:

- Nutripremium had been **consistently expanding** its production capacity. However, since the **European** market showed signs of **slowing down** 3 years ago, it stopped the production capacity extension. **Factories** are now being run at **98%** of **capacity**.
- Nutripremium has **no distribution channels** nowadays in **China**. In Europe it sells its “**Pregnant women**” line in **retail stores** and its “**Sick patients**” line through **hospitals** and **treatment** centers.

- A new factory in **Spain** that produces **€100 m** worth of **products** per year would require **€500 m** investment. The **same** factory in China would cost **€300 m**.
- The company has around **€600 m** available for **investments** in its expansion.

Solution

Here the candidate should inquire about the company's capabilities of expanding to a new market abroad.

- Company's **capabilities** and **expertise**
- **Capacity** to **serve** the **Chinese market**
- **Money needed** to invest in the **market expansion**
- Would the company continue producing in Spain to export to China? Probably not, as food is somewhat heavy and the shipping cost would most likely make the product too expensive for China.

Key insights

- **Capacity** of factories is being used to **98%** today. An expansion to a new market would **require investments** in one or more new factories. Since the factories are supposed to serve the Chinese market and building a factory there is cheaper than in Spain, the **factory** should be **built** in **China**.
- The infrastructure **investments** of **€300 m** would cover 11% of the Chinese market.

Percentage of Market Coverage

$$\frac{1\frac{1}{2} \text{ years}}{75 \text{ years}} = 2\%$$

- The company has enough money available to build **2** such **factories** and a chance of 22% market share.

- A lot of **money** and effort would have to be **invested** in building **networks** and **contacts** so that Nutripremium manages to engage the necessary **distribution channels** in China.

III. Competition

Additional Information

Note for Interviewer

Share **Diagrams 2** and **3** with the interviewee to explain the **competitive environment**.

Competition environment

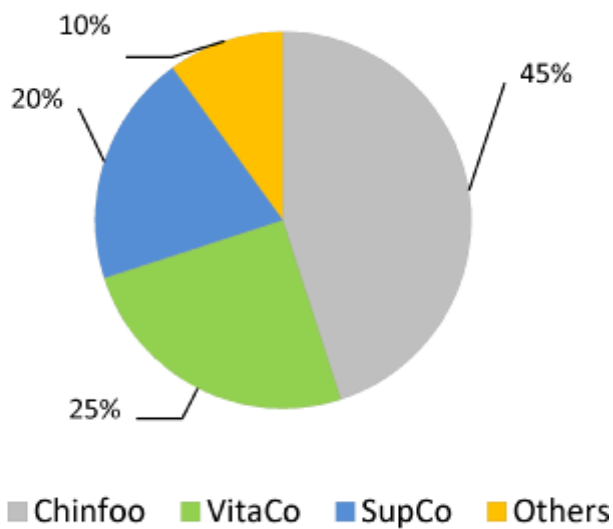


Diagramm 2 – Market share of main competitors

Competition environment

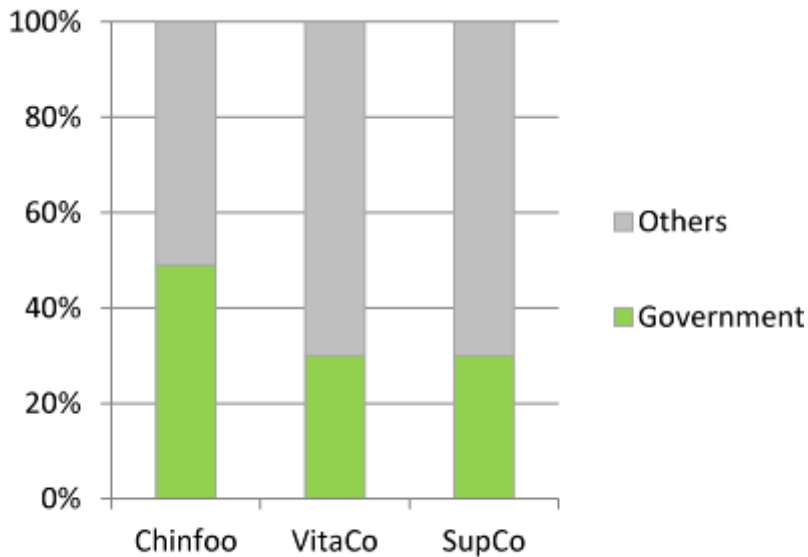


Diagram 3 – Shares of the government at the different competitors

It is evident that there are **three main competitors** and that the **government** holds big **shares** in them.

Therefore the interviewer should share the following information if the candidate asks:

- The market of special nutrition food is **new** in China. Old regulations contrary to it have been dropped upon Chinfoo's request. **Lobbying by Chinfoo** (government is a major shareholder) has been **essential** for the regulation-cancellation.
- Competitors are building at the time **4 new** special nutrition food **factories**.
- **Nutripremium's** more advanced technology would allow it to produce **10% cheaper** than the current competitors in China.

Solution

This is the most important part of the case. Although the market seems promising from its size and growth, the assessment of the competitive landscape should compel the candidate to take a position **against** the **expansion**.

- **Competition landscape** for the products in China (monopolies, cartels)
- **Special regulations** or other entry barriers
- **Market saturation**

Key insights

- There appears to be a **semi-monopoly** in the market.

- The **government** seems to be highly involved as a **shareholder** in the main competitors. This does not seem like a good panorama for a competitor coming from abroad and aiming at stealing market share from local players.
- Competitors are expanding capacity which might lead to a **decrease** in **market price** (more offer).

IV. Conclusion

Solution

At the end of the case interview, the interviewee should wrap up the case referring back to the **main findings** throughout the case in a summarized and logical way.

A **possible closing** to this case could be:

I think Nutripremium **should not expand** to the Chinese market at this moment for 3 main reasons:

- The **competition** seems to be fierce and government-controlled. The biggest three players in the market hold **90%** of the market share. **Government** has 49% of the **shares** of the biggest player, which would definitely bring us **disadvantages** in many circumstances (getting licenses, paperwork, and bureaucracy for commercializing our products among others).
- Since we are producing near to capacity, we would need to make **new investments** in infrastructure (build new factories). Although we do have the money for that, doing it in a very different market from ours – where the customer’s taste is different and where we have no experience of manufacturing our products – could end up being a problem if we fail to adapt.
- There must be **other markets** where the competition is more diluted among more players and where the market has still a big size and potential for growth. **Emerging countries** in South America like Argentina and Brazil are good examples of possible candidates. The population has also more similar tastes to Europe than in China. The investment could yield a much **better return** in these countries.

Further Questions

How many cancer patients would we need to have for our cancer product to break even?

We have **25** Sales Reps (earning **€200 k** each) and spend **€10 m** in other indirect costs. We assume each patient takes **4 doses** per day for **4 months**. A dose costs **€1** and its profit margin is **20%**.

Note for Interviewer

More questions to be added by you, interviewer!

At the end of the case, you will have the **opportunity to suggest challenging questions** about this case (to be asked for instance if the next interviewees solve the case very fast).

Solution

Suggested answer:

We have a total cost of € 15m (10m + 200k * 25) excluding the direct costs of the doses.

$$€10m + 200k * 25 = \mathbf{€15m}$$

The number of doses a client takes per year is 480 (4 * 30 * 4).

Since the margin is 20% for each dose, each customer means a **profit per year** of around **€100**.

We conclude than that we need approximately 150,000 customers for break-even in our cancer product.