



# A Case Study Model for Strategic Marketing Planning for Breville Automatic-Manual Espresso Machine

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**Abstract :** Breville Group (BRG) is a public listed company of the Australian stock exchange (ASX), an iconic brand and a market leader in small kitchen appliances with a broad product offering. Its company vision is “Delivering the world’s best kitchen appliances”.

This report looks at the strategic marketing plan for the Oracle Plus™ (Oracle+) Automatic-Manual Espresso Machine in the Australian Manual Espresso Machines (MEM) category. BRG is the market leader in the MEM category based on market (value) shares. The total market size \$29,510,808 (MAT Dec 2014) is up 5.8% from previous year, primarily due to higher purchasing activity in the high-price point MEM SKU. The market opportunity lies in the premium price segment which aligns with BRG brand position (Kotler et al. 2013).

The Oracle+ is targeted at the premium end of the MEM category. The targeted consumer demographics are industry influential experts and avid coffee drinkers; to leverage their ability to influence others (Romaniuk 2012). The Oracle+ RRP is AUD\$3,499 and will be solely distributed in premium specialty retailers. Sales are expected to generate 11% value share grow in additional to

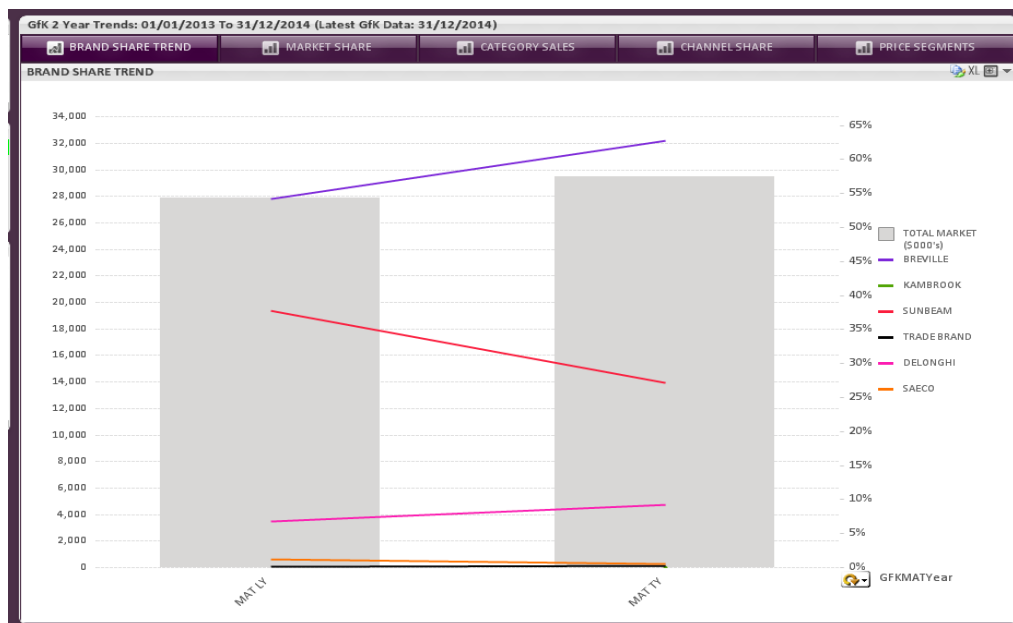
current share 62% and achieve sales revenue around \$3,500,000 in full year.

## I. INTRODUCTION

BRG is an iconic brand and the market leader in MEM in Australia (Figure 1). As the current market leader there are challenges for the organisation to grow its market share in a fiercely competitive environment. Over the years BRG have successfully built-up the MEM category and grown its market share. Management vision is to embark a strategic marketing plan of developing and introducing the new-to-the-world product to increase sales and profitability (Crawford & Di Benedetto 2015). The introduction of the automatic MEM called The Oracle Plus™ is envisaged to strength and grow BRG market share in the MEM category by 5% in year 2015.

This marketing plan will analyse the current market situation, evaluate SWOT, and detail the marketing strategy (4Ps) to drive Oracle+ sales and market penetration (Kotler et al. 1998).

Figure 1. Manual Pump Espresso Machines Brand Share



Source: GfK Data

## II. SITUATION ANALYSIS

### 1.1 Current Market Situation

In recent years the coffee machine market in Australia is classified into three categories:

- Capsule/ Portioned Machines (CPM) Category (Low Cost) – 74% of all units sold in 2014.
- Manual Traditional Espresso Machines (MEM) Category (Medium Cost) – 19% of all units sold in 2014.
- Fully Automatic Machines Category (High Cost) – 7% of all units sold in 2014.

The three categories have different target markets, marketing-mix and marketing expenditure level (Kotler et. al. 2013). In 2014, as shown in Figure 2 total coffee machines sold were approximately 409,000 and worth \$137M.

Figure 2. Espresso Machines Sales Units % and Value%

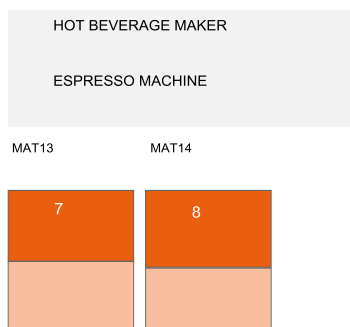
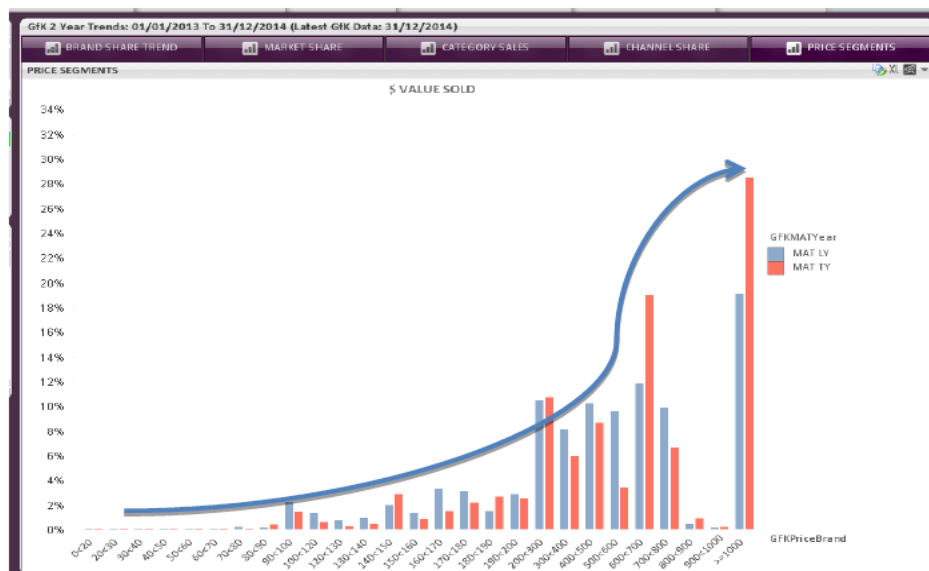
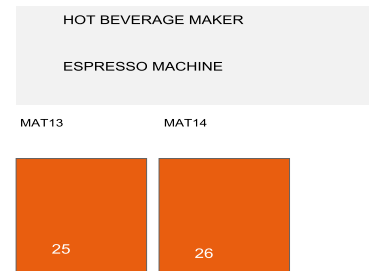


Figure 3. Pump Espresso Price Segments year 2013, 2014



Source. GfK December 2014 AU and Breville Data



Sourced. GfK December 2014

Since 2013 BRG has become the predominant brand in the MEM category; in 2014 its value in the MEM category share extended to 62% as indicated in Figure 5 and Appendix C.

Analysis of the market share (Figure 3) shows consumer spending is trending up in the MEM category. Buyers are becoming more engaged with on-cup experience and brewing quality coffee at home. Table 1 supports this trend in this market segment where market size increased 5.8% to \$29.5M in value between 2013 and 2014. Conversely as indicated in Table 2 market size in units decreased 9.8% to 73,200 units per annum. This decrease in unit sales was affected by:

- 1) Less demand for higher-cost machines;
- 2) Price competitive segmentation due to increased number of competitors; and
- 3) Rapid-growth in the CPM category (eg. Nespresso).

Table 1. Breville Espresso Machine Market Share in dollars

	Year 2013	Year 2014	Growth
Total Market Size (in AUD)	\$ 27,898,116.00	\$ 29,510,808.00	5.8%
Breville Manual Espresso	\$ 15,105,046.00	\$ 18,513,717.00	22.6%
BRG Manual Espresso Share	54.1%	62.7%	15.9%

Source. GfK December 2014 AU and Breville Data

Table 2. Breville Espresso Machine Market Share in units

	Year 2013	Year 2014	Growth
Total Market Size (in units)	81,146.0	73,230.0	-9.8%
Breville Manual Espresso	31,980.0	30,946.0	-3.2%
BRG Manual Espresso Share	39.4%	42.3%	7.2%

Source. GfK December 2014 AU and Breville Data

## 1.2 Product

The Oracle+ (Figure 4) is the world's first automatic manual espresso machine that brings true café quality coffee without a barista. The machine's automatic grinding, dosing, tamping and milk texturing mechanisms value proposition is simplifying and automating the most difficult parts of manual espresso machine. Its differentiation is in the incorporation the Figure 4. The Oracle Plus



**PLUS**



above novel elements that will empower consumers to produce barista-quality coffee with minimal effort and skill required.

Oracle+ incorporates intuitive user interface with the connectivity in connecting the machine with a large network of data. It gives users more precise and more flexible controls to resonate with user's needs.

Source. Breville Internal Data

## 1.3 Product Situation

The market data highlights the total sales value in the MEM category is trending up. Figure 3 provides an insight to consumer preferences which indicates purchases of Espresso machines are predominantly over \$600. Suggesting BRG marketing strategy needs to consider in its implementation:

1) Consumers are willing to invest in premium quality machines;

Figure 5. Breville existing manual Espresso machines

2) Low end MEMs are cannibalised by the low cost manual capsule espresso machines; and 3) Convenience and easy to clean are important to consumers based on the capsule system.

It is therefore recommended BRG rationalise its current MEM category (Figure 5) and concentrate on the premium range of machines. BRG partnership with Nespresso capsule Espresso machines should continue to target consumers who are price sensitive yet demand a certain quality of coffee.



Source. Breville Website

#### 1.4 Competition

Three brands dominate the MEM market - Breville, Sunbeam and DeLonghi (Figure 6) in an oligopolistic environment (Kotler et al. 1998). Breville is the predominant player in the Australian market and positioned in premium/ commercial segment. Sunbeam is positioned in the mid to high price point. DeLonghi's Espresso is positioned to accessorise with its Kettle and Toaster and targeted at mid-price points. From Table 3, the current top 10 MEM models retain significant value share due to:

- 1) Established brand identity and security of demand for Breville, Sunbeam and DeLonghi (Avenell 2014);
- 2) Complexities of the mechanical construction design, sophisticated production process, and interdependent low production capacity limits competition. As a consequence, there is a high barrier to entry for other competitors to enter the market (Kotler et al. 2013).

Figure 6. Manual Espresso Market Share in Year 2013, 2014



Source. GfK, year 2013 to 2014

Table 3. Top 10 Hit List of MEM

Brand	Model Numbers	UNITS LY	VALUE LY	ASP LY	VALUE SHARE LY
BREVILLE	BES 900	4,224	\$ 5,088,522.	\$ 1,205.	18.2%
SUNBEAM	EM 7000 SILVER / GREY / RED / WHITE / BLACK	4,290	\$ 3,175,033.	\$ 740.	11.4%
SUNBEAM	EM 4820	15,352	\$ 2,722,578.	\$ 177.	9.8%

BREVILLE	BES 870	4,181	\$ 2,622,791.	\$ 627.	9.4%
SUNBEAM	EM 6910	5,213	\$ 2,445,388.	\$ 469.	8.8%
BREVILLE	BES 860	4,422	\$ 2,397,081.	\$ 542.	8.6%
BREVILLE	800 ES	Y7,603	\$ 2,056,724.	\$ 271.	7.4%
BREVILLE	BES 840	3,324	\$ 1,460,867.	\$ 439.	5.2%
DELONGHI	ECO 310 B / BK / R / W	5,610	\$ 1,325,042.	\$ 236.	4.7%
BREVILLE	BES 250	7,650	\$ 1,134,271.	\$ 148.	4.1%

Source. GfK December 2014

### 1.5 Distribution Situation

BRG's distribution is broad as indicated in Figure 7. However, this creates a disparity to the BRG brand

Figure 7. The Breville brand's distribution

Channel	Australia	The Oracle+
Premium Specialty	Y	Y
Big Box Specialty	Y	N
Department Stores	Y	Y
Discount Dept. Stores	Y	N
Premium Mass	Y	N
Entry Mass	N	N
Grocery	N	N
Pharmacy	N	N

Source. Created for the assignment

## III. SWOT ANALYSIS

### 1.6 Strength

- The Oracle+ has unique attributes that empowers the consumer to make do things that is better, faster or simpler than before.
- The Oracle+ has patents for several innovative ideas and prevents competition mimicking same features.
- BRG products are consistently and independently rated as a trusted brand. BRG was named Australia's Most Trusted Coffee Machine and Small Appliance brand for 2014 (Avenell 2014).
- BRG has excellent brand awareness and premium quality brand image.
- BRG is the predominant brand in MEM category and established in premium distribution channels.

### 1.7 Weakness

- To deliver the 'best of the best' in the category may place the Oracle+ at a risk to succeed. There will be pressure to both costs and retail pricing applied from competitors and retailers to maintain margins.
- Low production capacity due to sophisticated design and mechanical construction may limit product delivery and impact delivery times.
- BRG allocates 5% (approximate \$178,250) of its sales revenue for advertising and promotion, whereas competitors are spending 10% of its sales revenue.

positioning. Distribution should be narrow and selective to reflect the status of a premium brand through the adoption and implementation of Selective Distribution strategy (Kotler et al. 2013).

### 1.8 Opportunity

- Consumers are showing increased interest in more sophisticated Espresso machine with high price point.
- Competitors' are predominately promoting standard products the combo-pack, packing Espresso machine with a stand-alone grinder, or packing Espresso with Kettle and Toaster as breakfast companion. Target segmentation is at mid-price point.
- BRG in introducing the Oracle+ has the potential to become the market leader in the automatic manual espresso machine through innovation.
- Potential to create a new automatic-manual espresso coffee segment within the MEM category.
- Market data shows there is increasing demand for coffee and consumers wanting to own their coffee machines from 28% in 2009 to 36% in 2013 (Smith 2014).

### 1.9 Threats

- Nespresso is the predominant leader in Capsule based on GfK December 2014 data and Appendix D.
- Possible entry of new competitors in launching similar technology machines (eg. Integrated grinder - lower price point).
- Increasing number of upscale consumers buying Espresso machines from mass-merchandise distribution outlets where BRG has weak representation.

- Possible compliance and safety standard regulation changes resulting in product redesign.

#### IV. GOALS AND OBJECTIVE

The goal of organisation is to maintain market leadership. Delivered through continuously developing innovative products, retain unique features, so called Simple Moment of Brilliant (SMOB) to engage the consumers and satisfied customers' need. The objective of Oracle+ is to grasp the marketing opportunity (Kotler et al. 2013) by launching the product to market in September 2015. The company sales forecast is to sell-through 1,500 units in the first year, with target additional 5% value share growth that promote BRG to expand overall market share (Kotler et al. 2013) to 70%

Table 4. The Oracle+ Projected Sales Revenue from 2015 to 2018

Year	2015	2016	2017	2018
Estimate Market Sales Value	\$29,510,808.28	\$30,691,240.61	\$30,691,240.61	\$30,691,240.61
The Oracle Plus™				
Projected Sales (Australia)	\$ 1,782,506	\$ 3,565,012	\$ 3,493,712	\$ 1,693,381
Value Share (%)	6.0%	11.6%	11.4%	5.5%

Source. Created for the assignment

##### 1.11 Financial Objective

Oracle+ needs to deliver good financial performance. Commercial Summary of the Oracle+ outlined in table 5, and financial statement enclosed in Appendix A.

- Targeting 3 years combined sales revenue to achieve \$10,534,610.

in MEM category. Target Sales Revenue \$3,500,000 with Contribution Margin \$1,440,000.

##### 1.10 Marketing Objective

The marketing objectives for the Oracle+:

- The Oracle+ forecast annual volume is 1,500pcs.
- The Oracle+ target launch in Sept 2015,
- The full year sales revenue \$3,500,000 and 11.6% value share should achieve in year 2016.
- The Oracle+ full year value share combines with BRG current shares will achieve 70%+ total shares in manual espresso.
- Uphold its premium flagship position, limited promotion period will hold, RRP is \$3,499.

- Estimate R&D development expenditure and Tool investment cost \$779,456.
- Product contribution margin \$1,018.48 per machine sales, 3 years combined contribution \$4,322,603 or \$1,440,868 in full year sales.
- Payback within 1 year.

Table 5. The Oracle+ Commercial Summary

A. UNIT PRICING		
AUSTRALIA		The Oracle Plus™
Quoted FOB (IEC, 240V)		USD 580.00
Contingency FOB (IEC, 240V)	10%	USD 638.00
Annual Sales		1,500
Gross Margin	53.9%	AUD 1,088.28
Contribution Margin	50.4%	AUD 1,018.48
RRP(AUD)		AUD 3,499.00
B. COMMERCIAL SUMMARY		
Sales - Aus/NZ - 1st 3 Fin. Years	AUD 10,534,610	
Total Sales - 1st 3x Fin. Years	AUD 10,534,610	
Combined Contribution - 1st 3x Fin.Yrs	AUD 4,322,603	
Total Development Cost (AUD)	AUD 779,456	
NPV @ 20%	AUD 1,456,609	
IRR	203%	
Payback (years)	1.0	

Source. Created for the assignment



## V. MARKETING STRATEGY

BRG must differentiate itself from competitors by creating desired response for the target market through its marketing-mix (4 Ps) (Khan 2014).

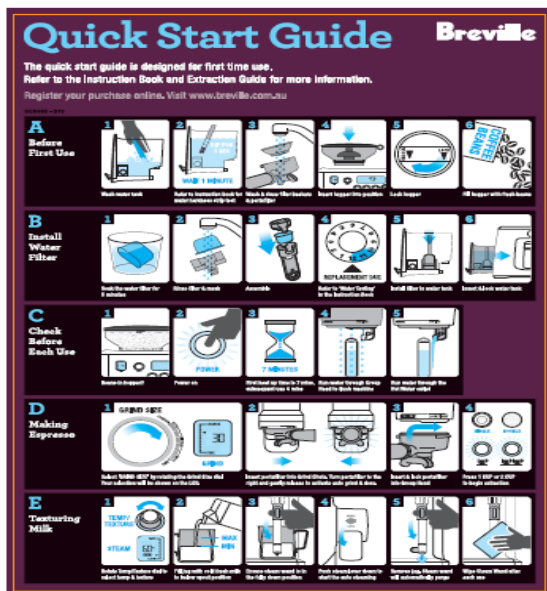
### 1.12 Product

Being better and different are vital elements to gain competitive advantage. The Oracle+ design focus is on delivering true needs and benefits for influential industry expert and avid coffee drinkers. This is achieved by “Listening” to the voice of customer (VOC) in product development and enthronometric observational consumer insights (Crawford & Di Benedetto 2015). The Oracles+ delivers high differentiation through products aesthetic, customisation feature, machine durability, reliability (2 years warranty) and serviceability (Kotler et al. 2013).

The world first Automatic-Manual Espresso creates an opportunity in the MEM category, maximising profitability and its market share in Australia market.

Furthermore, to increase the value of the augmented product (Kotler et al. 2013) – the product offering consists gift-with-purchase accessories, premium packaging material includes Quick Start user guide (Figure 8), on-product swing tag, instruction book, and educational information App. The kits provide passive communication and to assist with better user experience.

Figure 8. The Oracle+ Packaging Communication Example



Source. Breville Internal Data

### 1.13 Pricing

Price is the most important factor that affects consumers' choice (Khan 2014). Pricing is the only variable of the marketing mix that generates revenue for the organisation. However, the higher RRP charges to the customers, a higher customer expectation in

receiving product performance and premium quality value ('CIM: Marketing and the 7Ps' 2009).

The Oracle+ is the flagship model of MEM category; adopting the perceived-value pricing approach (Kotler et al. 2013) that correlates to its commercial grade design, engineering and premium quality. The set RRP price is AUD\$3,499. During the initial promotional period retailers will be incentivised to promote the launch of the product with the price offered at AUD\$2,999 (see Appendix B).

### 1.14 Place

Place strategy is vital to limit how BRG will distribute the Oracle+ to the end user and the choices of distribution channel that has strong effect on sales (Khan 2014). Oracle+ is targeted at selective premium placement chain stores to maintain its premium market position and flagship pricing. It is to be distributed by Premium Specialty Retailers (PSR) – Williams- Sonoma (Sonoma) and Department Stores – David Jones and Myers. To engage the distributors, BRG distribution strategy:

- Include PSR during the new-product-development process,
- Reduce PSR's costs by provide managerial training, improve the returned-goods policy and drop-ship delivery to Sonoma's customers
- Offer merchandising assistance by provides in-store demonstrations and store “events” (Crawford & Di Benedetto 2015)

Figure 9. The World's Most Premium Kitchen Retail Chain



Source. Image took by Breville

Oracle+ must be available in the right place, at the right time and in the right quantity, and keeping storage, inventory and distribution cost at an acceptable level ('CIM: Marketing and the 7Ps' 2009).

### 1.15 Promotion

The successful launch of Oracle+ means the benefits of the product must be communicated clearly and well to the market (Khan 2014). The communication involves all information from the Oracle+ technical data to strong persuasion. The promotion mix of Oracle+ covers below areas.

- Pre-announcement to get traction in the market early in the product life cycle (Crawford & Di Benedetto 2015).
- Influential by release press kits for editors, coffee industry experts and some customers (Crawford & Di Benedetto 2015).
- Advertising through lifestyle magazines and in store promotions create strong connection between customers with BRG brand.
- Personal Selling (or white-glove-service) such as through Sydney Aroma festival provides an opportunity for sales representative to meet customers in person. Highlighting product benefits in brewing quality coffee, building customer relationships, and enhancing BRG's 'corporate image' (Kotler et al. 1998).

#### 1.16 People, Process, Physical evidence

The reputation of the brand rests in the hand of customer service or the call centre ('CIM: Marketing and the 7Ps' 2009). To continuously improve, it is recommended to monitor customer feedback on product dissatisfaction from product design, to product misuse.

Customer service personnel will require ongoing complaint handling, product training, communication, and learning to enhance the brand identity (Khan 2014). Good user experience relies on both product introduction, product use, and after sales service. This is an area BRG should focus and improve to support its premium branding.

### VI. INTEGRATED MARKETING COMMUNICATION (IMC)

The ultimate goal of BRG's IMC is developing an effective two-way communication with its targeted consumers; and strengthening customers' relationship in the long-term (Jankovic 2012). This can be achieved through delivering a consistent message across various marketing communication mix (Kotler et al. 2013); and various promotion activities implementation (Mihart 2012).

As previously noted (section 5.4), the various promotion-mix activities covers pre-announcement, advertisement, TV advertisement, public relation, and trade events.

Furthermore, BRG should utilise a personal selling strategy to enhance its brand image, generate leads for sales force and develop customers' database for future after sales follow-up (Kotler et al. 1998). In order to implement IMC effectively, BRG should assign a cross-functional team made up of representative from sales, advertising, marketing, research and development team to oversee its implementation as continuous improvement (Kotler et al. 1998). An effective implementation can drive higher sales growth.

### VII. CONCLUSION

The world first Automatic-Manual Espresso Machine – the Oracle+ will set BRG apart from the competitors through differentiation and innovation. The Oracle+ targeted market segment is at the premium end of the MEM category; and the targeted demographics of industry experts and avid coffee drinkers. The successful implementation of marketing strategy needs to consider the following recommendations:

- Marketing mix 7Ps and IMC implementation should be developed based upon customers-orientation to strengthen BRG brand equity (Kotler et al. 2013), gaining competitive advantages and maximising profitability;
- Product offering including packaging needs to enhance the premium brand identity;
- Rationalise its existing MEM category product range and de-ranging low priced MEM products;
- Distribute Oracle+ exclusively in Premier Specialty Retailers (PSR) at the RRP AUD\$3,499;
- Incentivise PSR to promote the product during only the initial promotional/ launch period at AUD\$2,999;
- PSR sales representatives are well supported through product knowledge and training;
- BRG customer service personnel trained in product knowledge, complaint handling and capturing customer feedback; and
- Embark on appropriate promotional and advertising channels to enhance the premium brand image of the Oracle+.

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## Appendix A – the Oracle Plus™ Financial Statment

Revenue	2014	2015	2016	2017	2018	Total
A. Sales						
The Oracle Plus™						
Australia/NZ						
Sales		\$ 1,782,506	\$ 3,565,012	\$ 3,493,712	\$ 1,693,381	\$ 10,534,610
Cost FOB (AU\$)		-\$ 613,462	-\$ 1,251,462	-\$ 1,251,462	-\$ 625,731	-\$ 3,742,115
Landing Cost (AU\$) (No BLR)		-\$ 36,028	-\$ 72,057	-\$ 72,057	-\$ 36,028	-\$ 216,170
Gross Margin		\$ 1,133,016	\$ 2,241,494	\$ 2,170,194	\$ 1,031,622	\$ 6,576,325
Variable Expenses		-\$ 381,340	-\$ 762,681	-\$ 747,427	-\$ 362,273	-\$ 2,253,722
Variable Margin		\$ 751,676	\$ 1,478,813	\$ 1,422,766	\$ 669,348	\$ 4,322,603
The Oracle Plus™ - Variable Margin (AUD)		\$ 751,676	\$ 1,478,813	\$ 1,422,766	\$ 669,348	\$ 4,322,603
Total Variable Margin (AUD)		\$ 751,676	\$ 1,478,813	\$ 1,422,766	\$ 669,348	\$ 4,322,603
Total Contribution		\$ 751,676	\$ 1,478,813	\$ 1,422,766	\$ 669,348	\$ 4,322,603

Expenditure	2014	2015	2016	2017	2018	Total
A. Capital Costs						
Tooling Cost	\$ (265,385)	\$ (398,077)	\$ -	\$ -		\$ (663,462)
Other		0	\$ -	\$ -		\$ -
Total Tooling Cost	\$ (265,385)	\$ (398,077)	\$ -	\$ -		\$ (663,462)
B. Development Costs						
Salaries	\$ (26,265.74)	\$ (10,728.26)	\$ -	\$ -		\$ (36,994)
Other (see "Fixed Costs")	\$ (23,000.00)	\$ (56,000.00)	\$ -	\$ -	\$ -	\$ (79,000)
Total Development Cost	\$ (49,266)	\$ (66,728)	\$ -	\$ -		\$ (115,994)
Total Expenditure	\$ (314,650)	\$ (464,805)	\$ -	\$ -	\$ -	\$ (779,456)
Net Contribution	\$ (314,650)	\$ 286,871	\$ 1,478,813	\$ 1,422,766	\$ 669,348	\$ 3,543,148

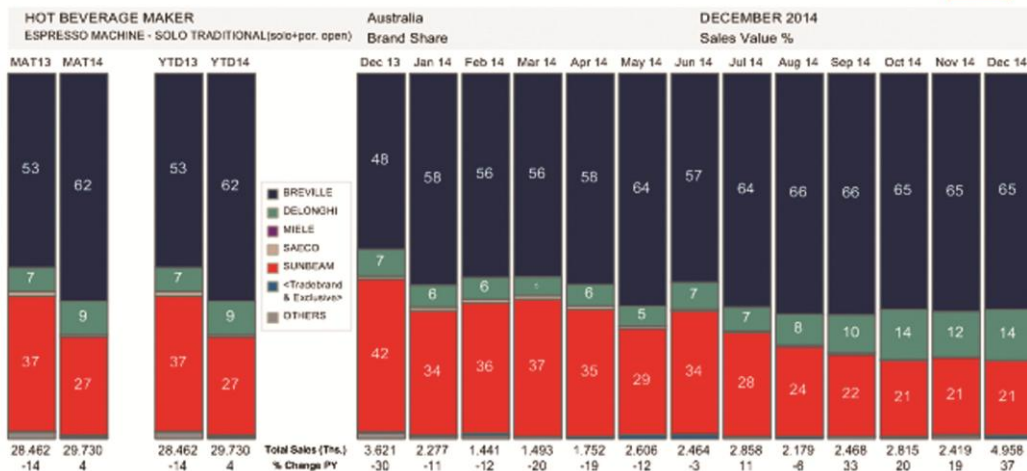
## Appendix B – the Oracle Plus™ Pricing Matrix

## AUSTRALIA

FREIGHT COST		AUD\$	
Exchange rate		0.78	US\$
Units Per Container (40')		549	est.
Freight Cost (Container + Agent)	\$	3,920	40' Container
Freight Cost Per Unit (AUD)	\$	7.14	
COST PRICE		AUD\$	
FOB Price (USD)	\$	580.00	
FOB Price (USD) with			
Contingency	\$	638.00	10%
FOB Local	\$	817.95	
Freight In	\$	7.14	0.9%
Duty	\$	-	0.0%
Procurement	\$	40.90	5.0%
Base Line Royalty	\$	65.44	8.0%
Insurance	\$	-	0.00%
Landed Cost \$/Unit	\$	931.42	
SELLING PRICE		AUD\$	
RRP	\$	3,499.00	
Promo Price	\$	2,999.00	
% Sold on Promo		10%	

Ave RRP	\$ 3,449.00	
RRP Excluding GST	\$ 3,135.45	10.0%
Retailer Margin	\$ 758.78	24.2%
Wholesale \$/Unit	\$ 2,376.67	
<b>REBATES AUD\$</b>		
Rebates \$/Unit	\$ 356.98	15.0%
Net Sales \$/Unit	\$ 2,019.70	
Gross Margin	\$ 1,088.28	53.9%
<b>VARIABLE COSTS AUD\$</b>		
Warranty	\$ 58.57	2.9%
Freight Out	\$ 11.22	4.6%
Total \$/Unit	\$ 69.79	
Contribution Margin	\$ 1,018.48	50.4%

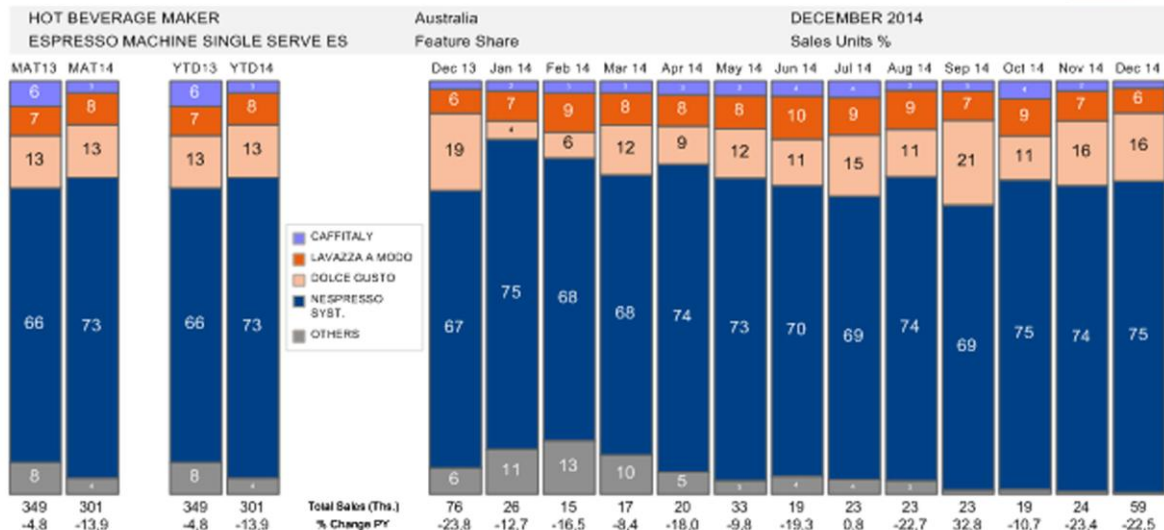
Appendix C - Manual Espresso Machines Sales Value in %



Sourced. GfK Dec 2014 data

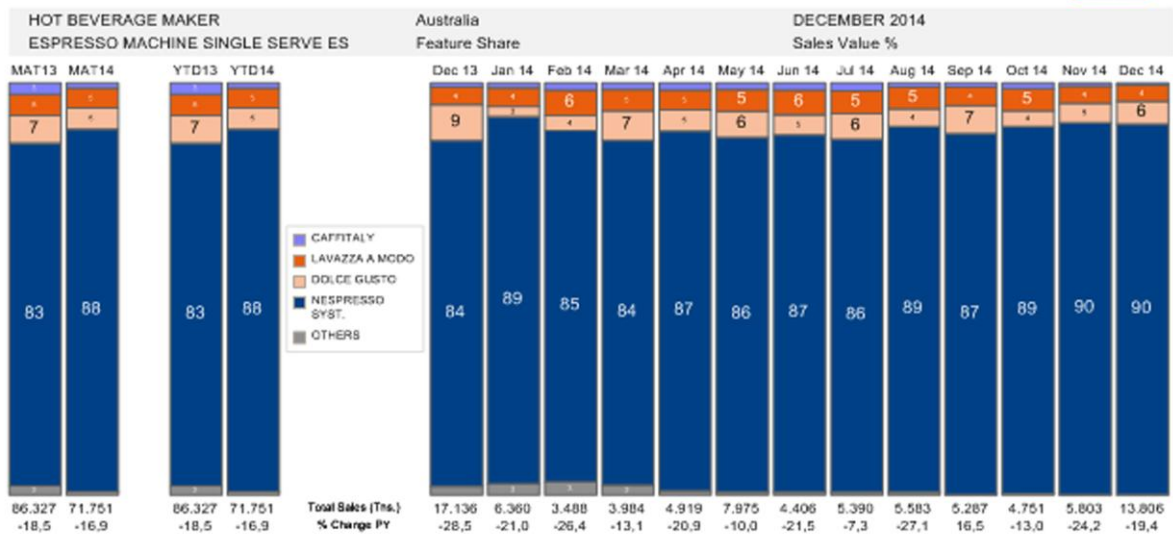
Appendix D – Espresso Machine Single Serve/ Capsule Sales Unit % and Sales Value %

Figure 10. Capsule Sales Unit %



Sourced. GfK Dec 2014 data

Figure 11. Capsule Sales Value %



Sourced. GfK Dec 2014 data

