Nakhwa Coffee Club

Premium Saudi coffee, delivered with pride

ECO 506 MBA Group Project
Managerial Economics | Al Yamamah University
Instructor: Dr.
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Business concept

For-profit premium coffee brand in Riyadh

- Product: premium roasted coffee beans in 250g packages
- Service: monthly subscription with delivery, flexible roast selection and loyalty benefits
- Complementarity: the product creates taste experience; the service creates recurring revenue

Riyadh	250g	Hypothetical
Main city	Core package	Business status

Product and subscription service

Two related outputs as required by the project guidelines

- Medium roast, dark roast, Saudi-style blend, single-origin Arabica and seasonal blend
- Subscription includes one or two packages, delivery, discounts, brewing recommendations and pause option
- Simple logo concept: coffee-bean rosette inspired by Saudi geometric patterns

Target market and business model

Premium positioning with recurring revenue

- Young professionals and office employees
- Coffee enthusiasts and households
- Gift buyers and students with sufficient disposable income
- Revenue model = package sales + monthly subscription fees

SAR 50	SAR 120	420
Package price	Subscription	Subscribers

Accounting and economic profit

Chapter 1 application

SAR 125,400	SAR 30,800	SAR 12,300
Total revenue	Accounting profit	Economic profit

Item	SAR
Explicit costs	94,600
Implicit costs	18,500
Economic profit	12,300

- Accounting profit excludes opportunity costs
- Economic profit subtracts explicit and implicit costs
- Positive economic profit means the project covers opportunity costs

Porter's five forces

Sustainable profitability assessment

Force	Intensity	Main response
Rivalry	High	Differentiate and build loyalty
New entrants	Moderate	Brand and retention
Buyer power	High	Flexible plans
Supplier power	Moderate	Multiple suppliers
Substitutes	High	Freshness and experience

- The strongest pressure comes from rivals, buyers and substitutes
- Profit sustainability depends on differentiation, retention and cost control
- Subscription data helps reduce switching and improves repeat purchase

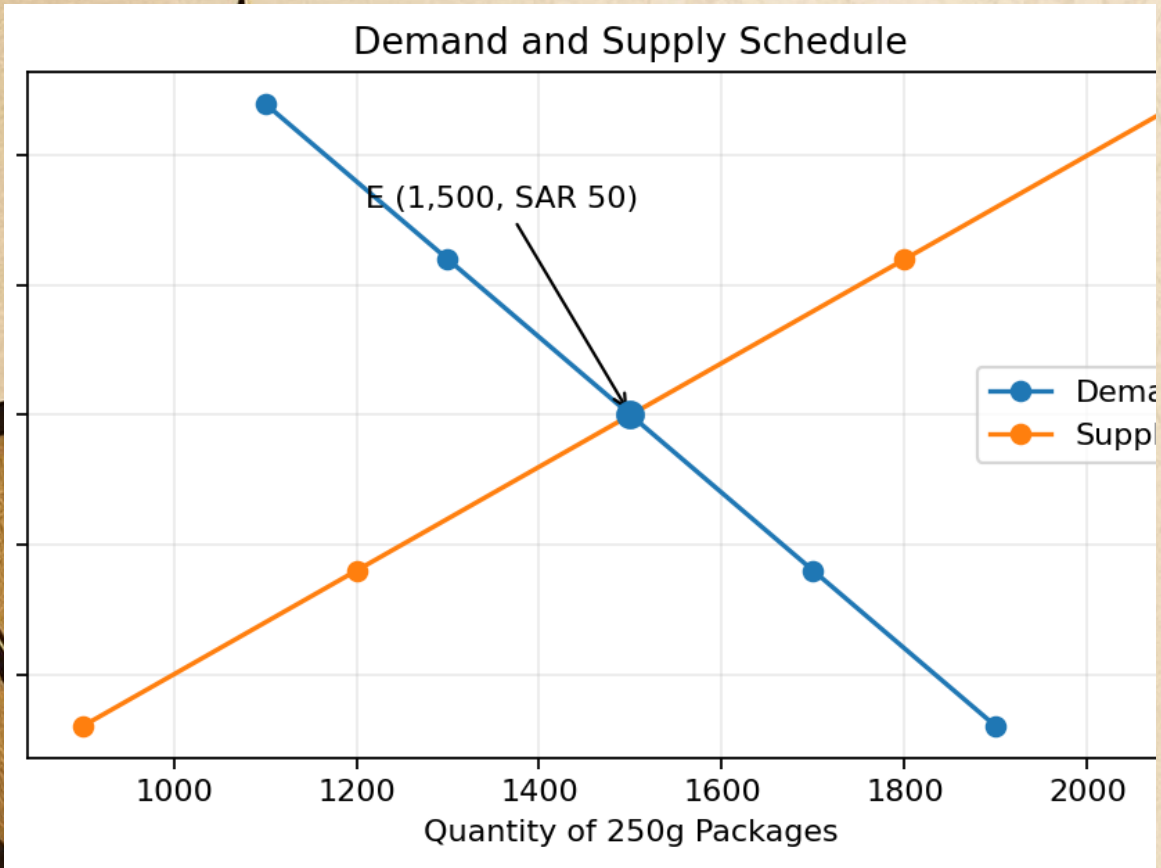
Demand and supply factors

Chapter 2 application to 250g package

- Demand shifts: income, tastes, substitute prices, advertising, seasonality and brand reputation
- Movement along demand curve occurs only when the package price changes
- Supply shifts: bean price, labour, packaging, technology, delivery cost, regulation and imported input availability

Market equilibrium

Demand and supply schedule



SAR 50

Equilibrium price

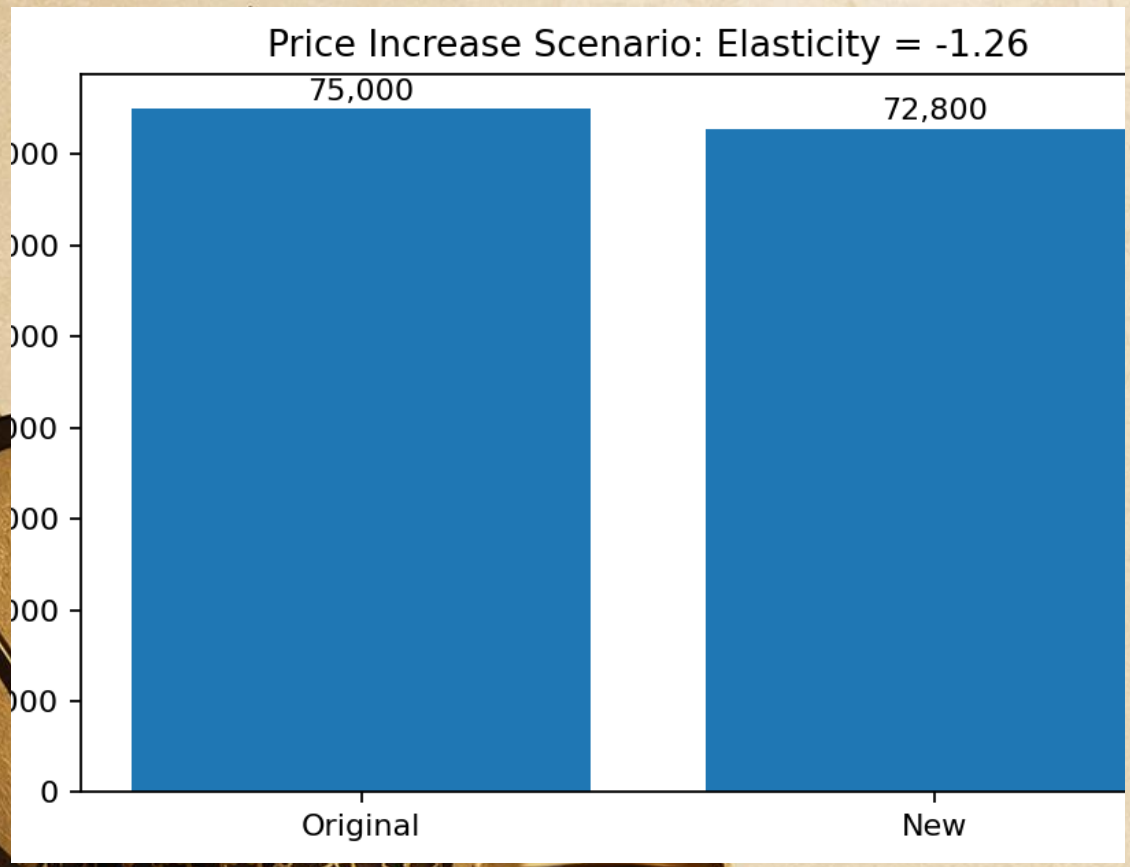
1,500

Equilibrium Q

- At SAR 44: excess demand pushes price upward
- At SAR 56: excess supply pushes price downward
- Market mechanism restores equilibrium

Price elasticity and revenue

Chapter 3 arc elasticity



-1.26

Elasticity

SAR 75,000

TR before

SAR 72,800

TR after

Revenue-ineffective

Decision

- Negative sign reflects the demand law
- Absolute value exceeds 1, so demand is elastic
- Revenue falls after broad price increase

Cross-price elasticity

Relationship with competing premium coffee

52 to 58	1,500 to 1,600	+0.59
Competitor price	Our demand	Cross elasticity

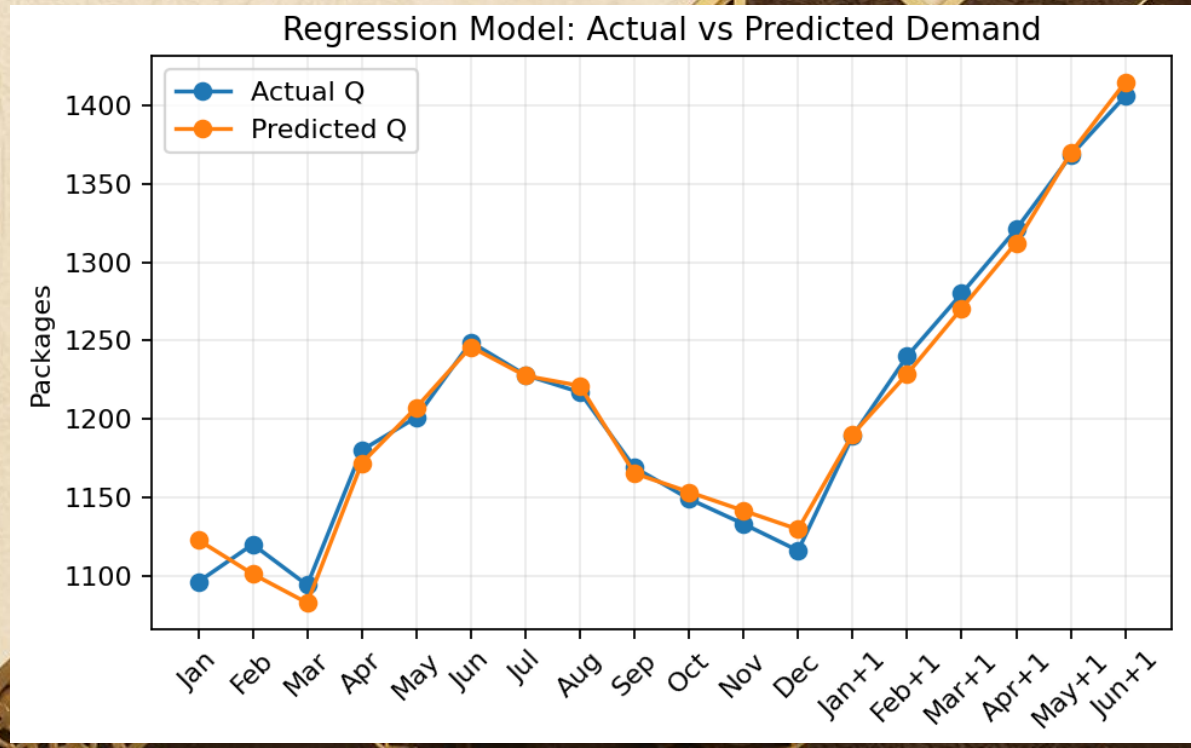
- Positive value means substitute goods
- Moderate strength: customers switch, but brand differentiation still matters
- Managerial response: monitor competitor pricing and use loyalty benefits

Regression model

Demand equation with four explanatory variables

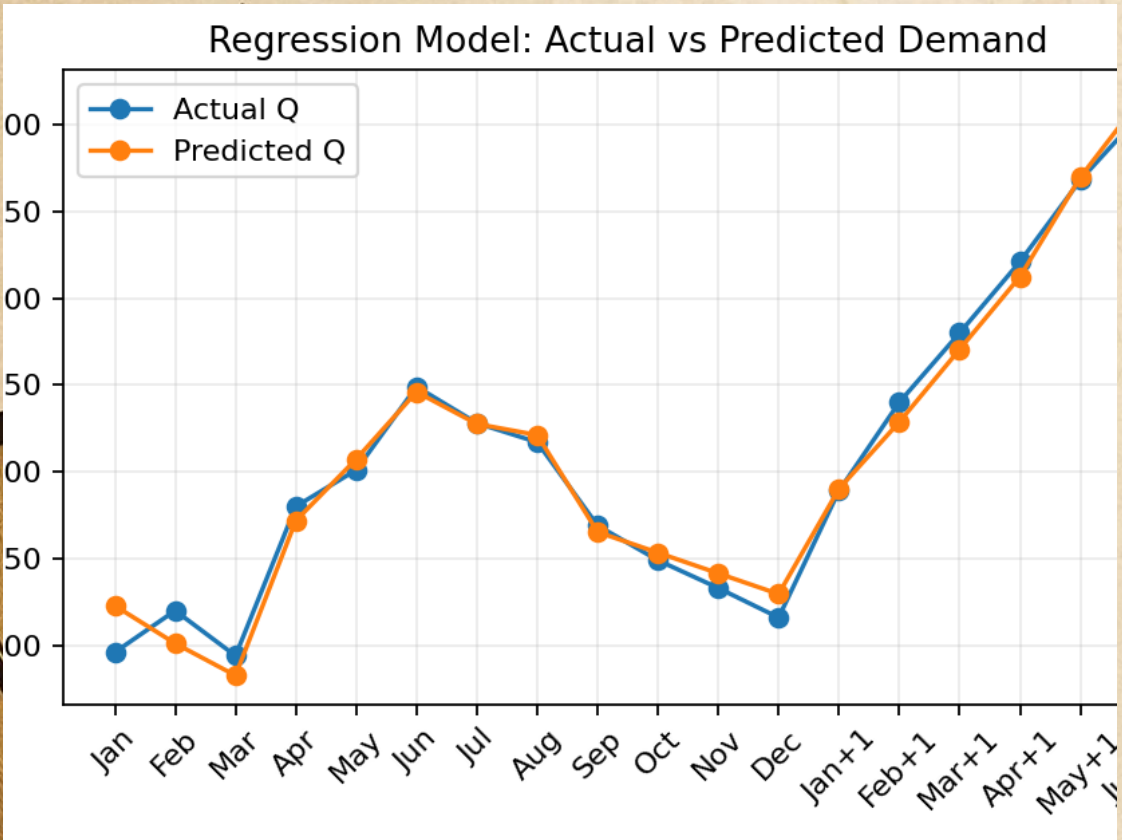
Q = b0 + b1(Own Price) + b2(Income) + b3(Competitor Price) + b4(Advertising)

- Dependent variable: monthly package demand
- Own price should have a negative coefficient
- Income, competitor price and advertising should have positive coefficients
- Dataset: 18 monthly observations



Regression results

Managerial interpretation

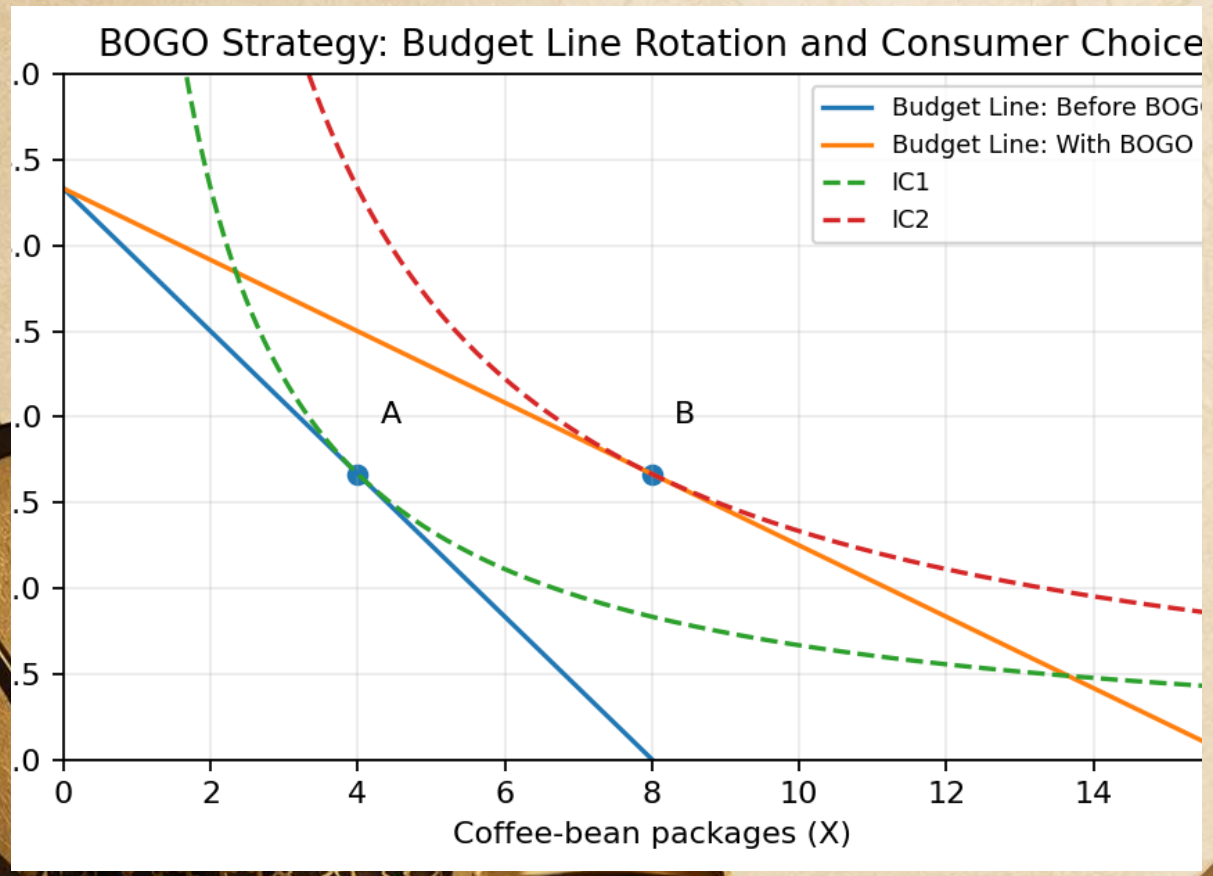


0.981	0.975
R-squared	Adj. R-squared
168.1	**Expected**
F-stat	Sign

- Higher own price reduces demand
- Higher income, competitor price and advertising increase demand
- Use the model monthly; do not treat it as real market evidence

BOGO consumer behaviour

Chapter 4: budget line and indifference curves



4.0 X

Before BOGO

8.0 X

With BOGO

- Effective coffee price falls from SAR 50 to SAR 25
- Budget line rotates outward for coffee packages
- Consumer moves to higher indifference curve

BOGO financial effect

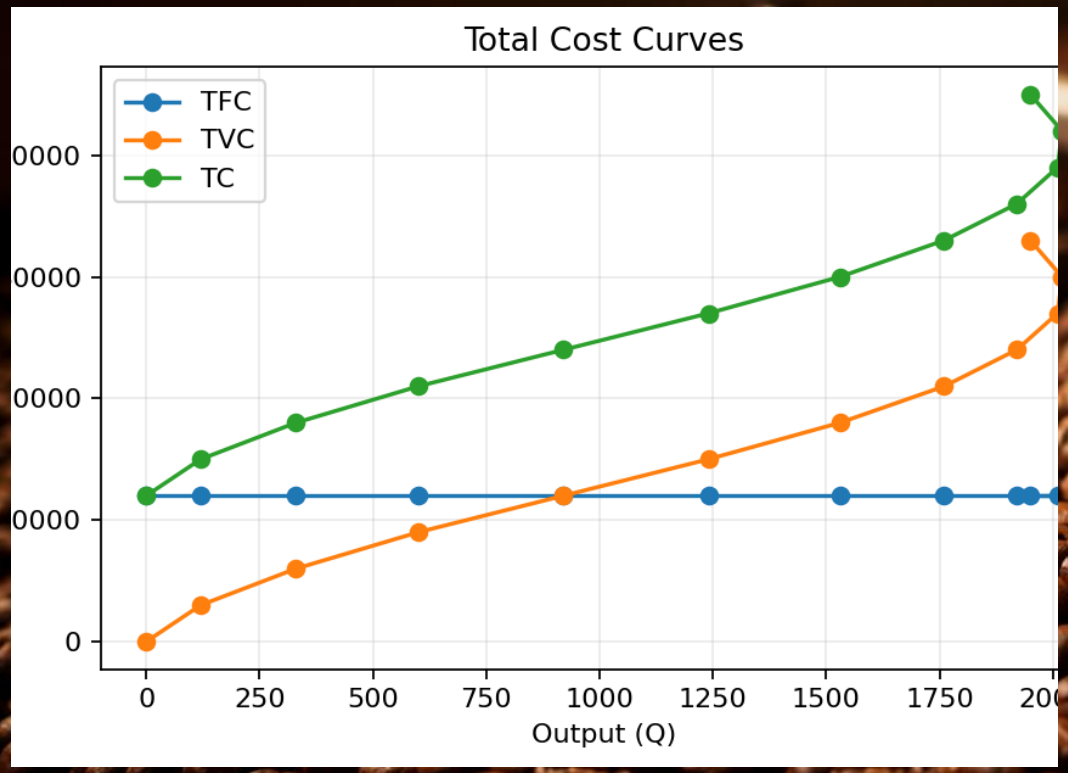
Promotion should be selective

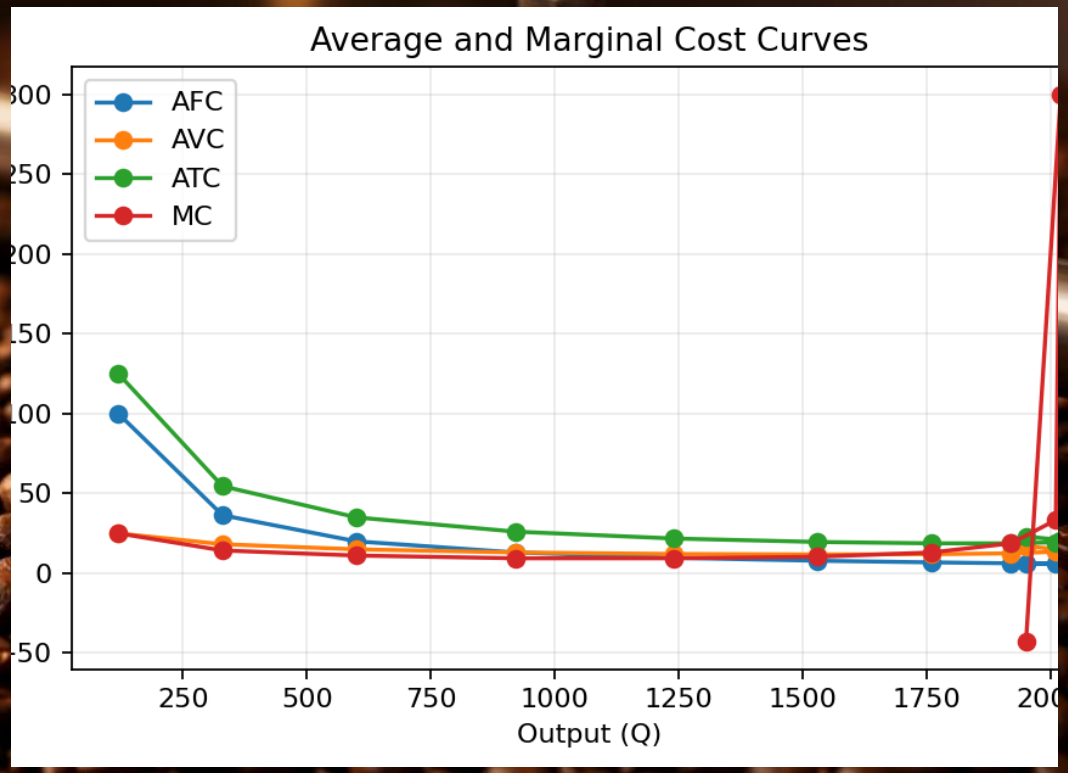
300	520	SAR 2,600
Units before	Units after	Contribution

- BOGO increases trial and physical sales
- The campaign remains positive only because variable cost is controlled
- Too frequent use can damage premium positioning

Production and cost analysis

Chapter 5: total, average and marginal costs





- Fixed capital: 2 units at SAR 6,000 each
- Labour: SAR 3,000 per worker
- Efficient range occurs before negative marginal returns

Economies of scope and sunk costs

Joint operation of product and subscription

SAR 49k	SAR 35k	SAR 76.5k	9.8%
C(beans)	C(subscription)	C(joint)	Scope

- Shared roasting, packaging, website and delivery capacity reduce cost
- Cost complementarity: joint package MC falls from SAR 24 to SAR 21
- Sunk costs: brand design, website, equipment installation and initial marketing

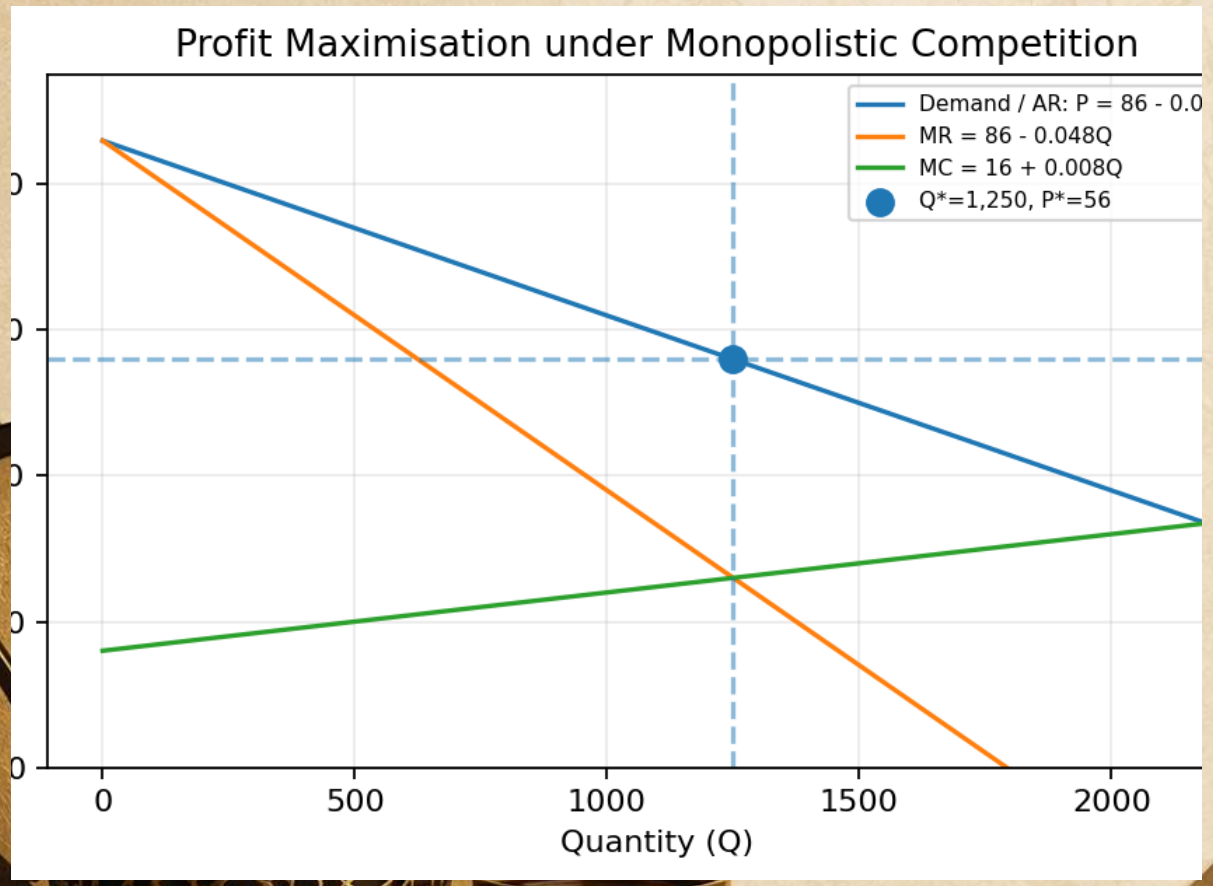
Market structure

Chapter 6 identification

- Selected structure: monopolistic competition
- Many sellers and substitutes exist
- Differentiation through roast quality, Saudi-inspired brand, packaging and subscription experience
- The firm has some pricing discretion, but demand remains elastic

Profit maximisation

MR = MC



1,250

Q*

SAR 56

P*

SAR 19,750

Economic profit

- Inverse demand: P = 86 - 0.024Q
- Cost: C = 24,000 + 16Q + 0.004Q^2
- At Q*, marginal revenue equals marginal cost

Integrated recommendations

Managerial decisions from the full analysis

- Keep base price near SAR 50; test SAR 56 only for premium bundles
- Prioritise subscription retention and customer data
- Use BOGO selectively for acquisition, not as a permanent discount
- Diversify suppliers and monitor input costs
- Update the regression monthly using Excel

Conclusion and Questions

Nakhwa Coffee Club can be profitable under the educational assumptions if it controls costs, uses targeted promotions, builds subscription retention, and chooses prices based on demand and marginal analysis.

SAR 12,300	1,250 / SAR 56	Differentiation
Base economic profit	Q* / P*	Main strategy

Selected references: ECO 506 lecture chapters; Saudi ZATCA VAT; Ministry of Commerce E-Commerce Law; SFDA food clearance guidance; HRSD Saudization information.