

Nespresso: Nestle Innovation at its Best

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Abstract

This is a two-part essay on Nestle's innovative tactics in launching the Nespresso brand, product, and business segment serves to discuss how Nespresso marketed the Nespresso System to the world. A brief discourse of Nespresso's history in relation to key questions is followed by a case study analysis and business recommendation moving forward.

Keywords: Nestle, Nespresso, innovation, marketing strategy, growth strategy

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Part 2: Nespresso Case Analysis

Problem – case question: "What must NCS do now to reach its ambitious growth targets?"

As stated by Willem Pronk, the CEO of Nestle Coffee Specialties, "The Nespresso System is an innovative concept that offers consumers individual portions of freshly ground coffee in a range of tastes that result in an exceptional cup of espresso every time." In a nutshell, that is the product that Nespresso provides to its customers. A convenient cup of espresso at home. However, Nespresso is so much more than that. It is a marketing genius at its prime. The system itself or machine, if you will, is the secondary product. It is the capsules that are the product that provides revenue for the company. Therefore, it is the capsules that the company must market to new customers and thus grow the company.

Nespresso is owned and operated as a separate divisional entity from its parent company Nestle. Nestle has focused on the mass production of beverages like Nesquik and Nescafé. Both these products are instant ready to drink beverages at a low price point marketed to on the go consumers who wanted convenience at a reasonable price point. On the other hand, Nespresso targeted a small niche market of coffee and espresso connoisseurs who mostly acquired their morning cup of joe in cafes on their way to work. To break into this market, Nespresso had to operate under very different

guidelines than Nestle itself. Thus, it was better suited to being a completely separate entity from its parent company as a 100% owned affiliate.

Major Issues

Nestle

The vast difference in Nestle's operation styles as a parent company and its 100% owned affiliate company Nespresso caused some strife. To the point, that original CEO Lang chose at times to lie to or refrain from mentioning key performance indicators to the executives at Nestle in his reports. Nestle dealt primarily in mass production, and its executives sometimes balked at innovations shown, particularly in marketing endeavors, from Nespresso. Lang presented a strategy to Nestle's general management early on that encompassed his belief that "to build a long-term business with such discerning consumers, Nespresso had to be in the household market." While eventually, that belief proved true, as can be seen by the current coffee market. Nestle initially was skeptical about taking the system out of the niche office market and branching out into the household one.

Strategy

This high-risk marketing strategy was just one of many that proved problematic. Entering a new market is very frustrating in the best of times; however, when Lang chose to enter that market, there was "very little market research on the household market." The research that had been done indicated that it was not likely to succeed if Lang pushed forward with his plans.

Customers

Lang's strategy was to attempt to put Nespresso as a luxury item and move away from the "more utilitarian office coffee." He wished to target elite coffee consumers and those who were "at the top of the household market." In other words, if you could afford the high-priced Nespresso system, you were going to be able to afford the constant need to buy more coffee capsules.

Marketing

The elite coffee consumer proved to be a smaller market that was not initially able to meet growth goals. To introduce the system to new markets, Nespresso chose to expand its consumer base through word of mouth marketing and the Nespresso Club. The club initially intended to address service issues to unreliable Nespresso machines and utilize a direct marketing technique to maintain current customers.

Alongside marketing initiatives through direct marketing, Nespresso also began targeting airlines to provide Nespresso as a premium product on first-class flights. This allowed Nespresso to market to new customers on those flights and expand growth within the elite niche market.

Industry and Competition

The coffee industry overall was primarily held by instant coffee sales. In the portion coffee market segment, Nespresso was king. "NCS currently held 90% share worldwide in the household segment of the portion coffee market." Its primary

competitors at the time were "Belgium's Malongo with its 1,2,3 Spresso system and Italy's Illycaffè." Neither of them could break into the global market to compete against Nespresso despite doing well in their local markets. The largest threat that NCS feared was if international food companies decided to enter the market, they would be able to dominate it merely due to the number of resources at their disposal and the brand recognition attributed to "their long-established R&G brands."

Potential Solutions

There are three distinct possible solutions that Nespresso and Pronk could attempt that might allow Nespresso to meet the initial ambition of Nestle that they reach SFr 1 Billion sales.

Nestle's first solution is to utilize its extensive experience in mass production and apply those techniques and technological advancements to the Nespresso system. The capsules' production had already been streamlined to some extent in earlier iterations by changing them from the aluminum capsules to disposable ones made from plastic. This concept could be taken much further in that Nespresso capsules could be taken out of the disposable market, and a reusable one could be developed. The coffee could then be sold to put into the capsules on an individual basis, thus cutting production cost in materials for the capsules and focusing on the quality of the ground coffee instead.

Potential issues with this solution would be on consumer education. Nespresso would need to educate consumers on the correct amount of coffee in a capsule and adequately insert the capsule into the machine and close it. Without this knowledge

included in sales of the device or capsules, the convenience factor would be lost.

Nespresso could target both markets, who would prefer the greener option of a reusable capsule alongside those who want the disposable one. However, this split could cause issues in the brand image.

A second option would be for Nespresso to move from the espresso-driven market and utilize its parent companies' strategy to enter into the general coffee-drinking market. The system applied to average coffee drinkers allowing them a quick, easy cup of coffee in the morning would significantly increase the target market and bring more potential customers to the sales target. However, a significant issue with targeting this market is that it would require a drastic redesign of the machine. It would need to sit on the average person's kitchen counter easily, need to be in an affordable range to the middle-class consumer, and have a wider variety of potential coffee flavors available at a lower cost. High-priced coffees would be out, and lower-price point coffees would be in.

The third and last option would be to revisit the utilitarian and office coffee market potentially. This market was initially targeted during a phase where the machines were given away to offices hoping to buy into purchasing capsules. Should Pronk retarget this market, he would need to do so with a lower price point machine that offices could afford and consider sales to office suppliers in bulk. For instance, if a company wanted to put Nespresso machines in all their break rooms, they could be encouraged through discounts to buy capsules in bulk on a subscription service.

My Recommendation

In my professional opinion, a combination of these tactics should be used. It is vital that Nespresso branch out and target new markets. However, to do so, they need to think outside the box. To establish a foothold in any market, they would need to target the average coffee consumer, the office worker. In this day and age of working from home, quick and easy coffee is vital to our success.

Targeting a consumer at a lower price point means that increased sales need to happen, and costs must be cut on both the machine and the capsules. This will require drastic changes in the production of the machines. As mentioned, they would need to be made of less expensive materials, mass-produced, and still work as intended. The machines could then be marketed in supermarkets to the standard coffee drinker. As with Nestle in the instant coffee market, they could dominate the utilitarian coffee-drinking market by providing a convenient way to get a cup of coffee right before heading out to work.

It would be vital for sales teams in retail environments that salespeople spend time educating buyers on operating their machines and any accouterments provided with it. They would need to train consumers on how to clean their machines and maintain them over time. This would reduce the need for service calls and repairs on home machines. If the price point were low enough, consumers would buy new machines when the old ones wear out or break instead of relying on the company to repair them. This would in and of itself result in increased sales targets being met. They would then also need to expand into the green market where reusable items are vital to sales alongside “organic” coffee choices. Combining these marketing and operational

decisions would guarantee that Nespresso continues to dominate the portion coffee market while also meeting that expected SFr 1 billion sales goal.