

STRUCTURE:

- launched new business unit Nestle Coffee Specialties NCS: because realized it was completely new type of business + operated very differently to Nestlé's existing businesses
- new unit would be able to move faster in seizing market opportunity in newly-created, individual-portion coffee category
- hired an outsider: infusion of talent from outside company will result in different thinking to help propel innovation to market
- separated from Nestlé to make it more agile, to establish credibility, so that it didn't have to fight against company's rules
- separated means largely avoided controversy that its parent company attracts
- business physically moved out of Nestlé headquarters (moved to its own office premises in Pully) to provide even higher degree of autonomy > more agile
- to avoid widespread scepticism within Nestlé > demonstrates resilience
- product doesn't fit Nestlé's business model of selling FMCG through supermarkets (≠ Nespresso involves producing + selling coffee machines/capsules to machine owners)
- recruited outsider Jean-Paul Gaillard (former Philip Morris executive who catapulted Marlboro Classics clothing)
- company retains complete autonomy from Nescafé organization
- autonomous, globally managed business within Nestlé Group
- because Nespresso had developed a dedicated set of processes and culture that was completely different to Nescafé
- departure from most Nestlé lines of businesses targeted to mass market
- culture uniquely suited to affluent target segment that it aimed to serve (≠ Nescafé: mass market approach was much more like traditional FMCG company) > even degree of risk between the two
- to establish credibility because too different from day-to-day business of Nestlé
- doesn't have to fight against company's rules
- because innovation in large corporation like Nestlé is complex process > initially difficult to win support for Nespresso system within Nestlé
- Nestlé had no experience in manufacturing/distributing non-food items (coffee-making appliance)
- need to bring someone from outside: Jean-Paul Gaillard with new ideas in 1988

SINCE OUTSIDER CAME IN:

- **Focus shifted from offices to affluent households:** repositioning as super-premium in-home coffee experience for espresso connoisseurs (household market)
- **Build direct-to-consumer channel with high service standards**
- **Outsourcing machine side:** held patents but licensed production
- **Increasing degree of autonomy**

CORE VALUES OF BRAND: Top Quality, Elegance, Aesthetics, Excellence, Simplicity, Innovation

☒ Nespresso System as the capsule-machine combination offered the consumer a refined quality and individualised cup of espresso coffee with speed and convenience at the push of a button

> created new growth segment

- iconic international brand
- unique business model

BUSINESS SYSTEM FIT:

NESPRESSO IS NEXT ITUNES:

similar to how Apple completely disrupted music industry with introduction of iTunes digital music store in 2001

- both companies created aura of premium brand: but easier with technology to keep it closed because you create technology patents > but with coffee when patents expire, entire model can collapse
- Nespresso created 'closed' system where special Nespresso capsules required to brew espresso + online available online or through flagship boutiques + not usable in any other coffee machine
- new idea of single-serve coffee market
- growing network of Nespresso boutiques
- Nespresso branding campaign centered around creating new 'coffee culture'

GLOBAL EXPANSION: clusters of markets

- markets with pre-existing high consumption of barista-quality coffee (Switzerland, Austria, France, Spain)
- markets with less pure taster (UK, Germany, Australia, Scandinavia)
- other places where coffee consumption extremely high but still not well known (US, Canada, Latin American)
- markets where coffee consumption is not very high (Asia, China)

☒ new geographies and getting closer to coffee consumption habits in them

SWOT - EXTERNAL ANALYSIS

Opportunities:

- by early 1990s whole new 'gold standard' of coffee had emerged, based around stylish and romantic Italian espresso coffee experience (Starbucks and Lavazza, Illy)
- portioned-beverage market believed to grow as much as 9-fold with predictions that one-fifth of all coffee made would be portioned capsules, pods, or pads by 2015
- coffee represents largest market by value, with 75% of coffee consumed at home
- packaged single portions of coffee still represented only 8% of total coffee market in terms of volume, and 25% in terms of value > one of the fastest growing segments of coffee market

Threats:

- increasing competition
- competition from other soft drinks
- current trend for health: healthy drinks such as fruit juice, smoothies

SWOT - INTERNAL ANALYSIS

Strengths:

- personalised advice 24/7
- only machine able to deliver sufficient pressure to make true espresso
- capsules able to preserve all aromas of coffee + wide range of flavours
- special services for B2B: offices, hotels, restaurants, luxury goods stores, airlines
- Nespresso Club allows for direct marketing > to make customer feel privileged + has attention of firm
- gain a lot of customer insights through club

Weaknesses: