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CS-08-001
July 2008

Nestlé and the multi-beverage machine market (A)

In November 2004 Henk Kwakman, the newly appointed head of the coffee strategic business unit (SBU) for Switzerland-based Nestlé, the world's largest food company, faced a daunting challenge: grow the company's coffee business amid a drop in global coffee prices and sluggish consumer demand.

Kwakman was no newcomer to the coffee business. Earlier in his career, he had served as CEO of Nespresso, a Nestlé division that had pioneered the premium single-portion coffee market in 1986, when it introduced its Nespresso espresso coffee system. The system consisted of stylish coffee machines designed to make espresso using thimble-sized capsules filled with highest-quality coffees. By 2004, Nespresso was well on its way to realising its vision of becoming "the icon for perfect coffee worldwide" and Nespresso, by then the best-selling system in Europe, had grown into a formidable brand.¹

While at Nespresso, Kwakman had directed his research and development (R&D) team to begin the development of a multi-beverage system capable of preparing beverages beyond espresso; namely cappuccino, lattes and tea. Kwakman got the idea to develop a multi-beverage machine in 1998, when he visited Harrod's department store in London to attend a Nespresso demonstration. "The saleswoman was demonstrating how to make cappuccino using the Nespresso machine. When we asked why, she said, 'If I do a demo on espresso, I only get a few people interested in tasting the coffee, let alone buying a machine. If I demo cappuccino, I get 20 tasters and I'll sell one machine.' This suggested to me that there was demand for a multi-beverage system. The Nespresso system did not automatically make cappuccino, so she was preparing the milk separately. I saw this as an opportunity," said Kwakman. The R&D team got as far as demonstrating, on paper, that a multi-beverage machine could be viably created and was praised for the innovation, but when Kwakman left in late 2001 to head Nestlé's food division, the project was shelved.

The management team that took over at Nespresso after Kwakman did not think that moving into the multi-beverage market was a priority for Nespresso. They were concerned that Nespresso's reputation as a specialist purveyor of *grand cru* espresso might suffer if the company expanded into the multi-beverage market. Besides, the Nespresso brand was barely able to keep up with demand: it was the fastest growing, most successful portioned coffee system on the market – unrivalled, despite the steady entry of competitors

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