

Nespresso. What Else?

Introduction

Nespresso is a premium single-serve coffee brand of the multinational Swiss company Nestlé. By 2011, Nespresso had sold more than 20 billion of its proprietary aluminium coffee capsules direct to consumers through exclusive boutiques, tele-ordering and its own e-commerce websites. And growth remained buoyant (see **Exhibit 1**), with sales tripling between 2007 and 2010 alone – from CHF1.16 billion (€906.25 million) to over CHF 3.2 billion (€2.5 billion). In terms of volume, the number of Nespresso cups consumed worldwide every minute increased by 23% in 2010, from 10,000 in 2009 to 12,300 cups.¹

At a price of more than five times the typical per-serving cost of a cup of home-made ground coffee, Nespresso is firmly targeted at affluent consumers. Nestlé provides no profit figures for Nespresso, but margins are believed by analysts to be among the group's highest.

While the world consumes more water and tea, coffee represents the largest market by value, with 75% of coffee consumed at home.²

In 2010 packaged single portions of coffee like those from Nespresso still represented only 8% of the total coffee market in terms of volume and 25% in terms of value,³ but they were one of the fastest growing segments of the coffee market, accounting for up to 40% of the value of ground coffee sales in European coffee markets.⁴

The company's rapid growth and impressive results had attracted the attention of competitors, who launched their own machines or manufactured Nespresso-compatible coffee capsules. The latter trend was expected to accelerate from 2012 on, when many of Nespresso's patents were set to expire.

Nespresso CEO Richard Girardot was faced with the challenge of how to both defend and grow the Nespresso franchise. How should Nespresso evolve its business model in the coming years? How might the company respond to the onslaught of competitive and copycat brands? And how could Nespresso maintain exclusivity amongst the ever more discerning coffee consumers in its target market?

Nestlé and the birth of Nespresso⁵

This case study was prepared by Jamie Anderson of Antwerp Management School, Research Associate Mark Collins and Professor Nader Tavassoli of London Business School.

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