

Nescafe and its enterprise type

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Nescafe, one of the top ten most valuable brands in the world, has over 50% instant coffee market share of the world, followed by GeneralFood, Maxwell House and Brooke Bond. It's so successful that some people in some of the Asian country such as China think that instant coffee is the whole world of coffee in 1990s. Such impressive influences come from Nescafe's insight on the market situation and its own capability, fast response and feasible strategies. On this analysis, we will try to define instant coffee's market as a standard cycle market.

Giving its characteristic, we will see what strategy Nescafe created to maintain the sustainable growth and continue generating rents. We will give example on what Nescafe did in China to analyze the entry barrier, convergence, oligopolistic scale orchestration, etc. We consider instant coffee market as the standard cycle based on the following concerns: 1. Convergence: Both Nescafe and Maxwell were the earliest two instant coffee providers in China. They entered the market in late 1970s. For a decade from 1980 to 1990, coffee could be only found in Hotel and high-end restaurants, but not in stores or supermarkets.

Those 10 years seems a conflict with the convergence of standard cycle which normally took around 4 years. However, because the demand on coffee was so low at that moment, I would not consider those 10 years as part of the convergence of standard cycle. Instead, I would say the convergence of instant coffee market started from 1990. At that moment, Chinese people was getting rich thanks to the reform and opening-up policy. Nevertheless, the price of a cup of Nescafe coffee is around 30 times of that

of apples. In 1992, Nescafe started its production in China and making Nescafe cheaper and more accessible.

Nescafe did exceptionally well in 1990s when it made “Nestle” a symbol of coffee. However, it didn't take much long that the price of Nescafe dropped rapidly to the same as several apples. This time line fitted the standard cycle convergence. And today, we can see that a small bag of Nescafe costs less than an apple in the super markets.

2. Alignment As I said above, Nescafe played really well in the China market. It knew the market and its own capability, and adopted the right strategies. We will see how it did such a nice job in those 3 points separately:

3. Markets: China's instant coffee was a brand new market back to 1990. There were no more than 5 companies providing instant coffee there. All of them were foreign companies and no one had its own factories in China. Foreign companies required approval from Chinese government to build factories there. In 1990s, Chinese instant coffee market was booming regarding to people's acceptance on coffee and large population base. As TV got more and more popular, brand loyalty were easier to build through advertisement and people tend to be sticky to the brand with the first taste.

2 Capabilities: As the biggest instant coffee provider, Nescafe has the capital and reputation advantage to set up a factory in China. Its over 100 year management and marketing experience should help them to open emerging market easily. Its exceptionally and traditionally well-arranged and warm advertisement would touch the soul of the Chinese people. The entry barrier to set up an instant coffee factory was quite high. It not only required huge investment but also a minimum

production which may exceed the market demand in the early stage of the market. 3. 3 Strategies:

Nescafe set up its production line in 1992, and made effort to build up a strong sales network, management team which were not easy to duplicated by competitors. Meanwhile, they differentiate themselves as the high quality coffee provider at the very beginning, focusing on quality control and manufacturing process, keeping promoting that core value, so that they set up an reputation line that is hardly exceeded by its competitors. For a standard cycle market, an easy exit level is also very important. However, it's not easy to achieve in the instant coffee market because it require a huge investment on property, plant and equipments.

Once the market turns to competitive market as what it looks like today, the sunken investment would be huge and companies may have to keep producing and struggle to survive. 3. Segmentation of CostLeadership and Differentiate We took Nescafe, Maxwell, Brooke Bond and some other local brand such as Super Coffeemix as example. Nescafe, Maxwell and Brooke Bond control over 70% of the instant coffee in China, and they are the oligopolistic players in the market. They differentiate themselves from quality, tastes, innovation and customer experiences.

The rest 30% market share are controlled by many of the local small coffee producers who are competing on prices. Cost Leadership| Differentiate| Super CoffeeMix \$5 / 100g| Nescafe \$10 / 100g| Most other local brand| Brooke Bond \$ 8. 2 / 100g| | | Maxwell \$ 7. 8 / 100g| From the above table, we can see that almost all of the Chinese local brand are in the circle of cost

leadership because they are usually lack of systematic quality control, avoid excessive marketing investment, don't need to concern socialresponsibility. Those brands took over 30% - 40% of the market share in Tier 2 cities in China.

On the contrary, Nescafe, Brooke Bond, and Maxwell differentiated themselves with quality, various favors, and providers of coffee-along products such as sugar, milk power etc. They try to build some connection between their coffee and a sweet, relaxed and high quality life. An advertisement from Nescafe shows a lady sitting beside a round table, under a fantastic weather and enjoying her afternoon tea time with some dimsum. After tasting the Nescafe, she closed her eyes, seemed very pleased and satisfied, and appreciated " It tastes so good".

This advertisement happened in the 1990s and was so popular that making Nescafe as a symbol of sweet life. 4. Scale Orchestration's four sections 5. 4 Scale: Nestle fully takes advantage of its scale. Nestle brought its Nescafe to China in 1978, and established its first factory in China in 1990. In 2010, Nestle accumulatively makes over 8. 3 billion RMB (around 1. 3 billion USD)Foreign Direct Investment in China , hires over 14, 000 employees, runs 22 factories and sold out over 1. 5 million pieces of Nescafe products every day. It takes over 25% of the instant coffee in China, a market values over 5. billion RMB (around 0. 8 billion USD) and grows over 15% per year. 5. 5 Learning: Nestle has a very well arranged and systematic employee training program. High-performing employees are invited to Headquarter in Swissheducationcenter to have further management trainings. From 2000,

Nestle China started the first two-year “ Nestle (China) Management Development Plan” aiming to promote 500 local employees to management level in 2010 to enforce the localization strategy. Besides, Nestle also provides advanced technology and solutions to farmers and helps them to plant the high quality coffee bean in China.

5. Product: Nescafe has much more diversified products now than before. It has Nescafe 3+1, Nescafe Cappuccino, Nescafe Classic, Nescafe Decaf. It also has over 10 different favors, include powder bag and beverage, different package either to help making coffee easier or to be elegant to send as gift. Beyond the rich aroma and delicious tastes from the coffee, Nescafe try to provide further connection on efficiency, relaxation, stimulation, health and graveness through its products.

5. 7 Process: After over 20 year business running in China, Nescafe found its way to continue stable and sustainable growth in China.

It has its Labeling Standards which is the instruction to define logo, color, letter font, paragraph distance, and Package Design Manual which makes sure package style and materials are globally standardized. Besides, Nescafe also cut down its global media partners to 5 major advertisement agents. This strategy not only helps Nescafe to have precise cost control, but also guarantee its advertisement to be in a more consistent format and to provide the same mainstream idea in a certain period. All those four section make a generic structure which helps Nescafe to be successful in a standard cycle.

. Can Nescafe turn into a long-cycle market player? The critical element in the long-cycle market is the strong isolating mechanisms. The key player in the market set up the monopoly power by lifting the entry

barriers, without spending too much investment to create economic scale. Can Nescafe try to set up some strong isolating mechanisms to take over the market? It's possible but very hard. 6. 8 Brand Lock-in As the earliest instant coffee producer who established a well-known brand name in China. Try to set up brand lock-in is the easiest way for Nescafe to create isolating mechanism.

By heavy investment on media advisement, Nescafe is having loyalty from a majority of consumers who works in office and has to work late. 6. 9 Resource barriers Yunnan Province in China is the best place to cultivate coffee bean because of its mild wet weather. Nescafe convinced the local farmers to plant coffee bean from 1990s. Through last 20 years, Nescafe provided training to those farmers, increased the beans' quality and production. If Nescafe is able to collect the best quality beans from Yunnan, it will set up resource barriers to prevent competitors from competing on quality. . Does the instant coffee market tend to turn into fast-cycle? Capital investment is not a critical entry barrier for instant coffee market any more. If tracking the instant coffee products in the market, we will see new products (new package, new favor or new cafe component, etc) are launched much faster than before. It's not only because the taste of consumers are keeping changing quickly, but also because instant coffee producers are investing more on R&D and creating more selling ideas in order to maintain a sustainable profit.

Regarding instant coffee is kind of commodity which is hard to differentiate, economics of scale would not help to keep the sustainability because price

drops even faster. Besides, weak brand loyalty, rapid globalization even fading the product value. Nevertheless, it's very difficult to minimize the exit barriers. Giving the competitive instant coffee market, there shouldn't be any more new player joining it. In sum, Nescafe position itself quite well in the market, response quickly to market change, adopt suitable strategy to keep its sustainable growth. It's a good example to analyze by using the tools we learned from course.