

# Nespresso case summary

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Tiffany Smith July 27, 2010 The Nespresso case traces the development of the Nespresso System in a 100%-owned affiliate deliberately placed outside Nestle's main organizational structure. The case also highlights the team's successes and challenges in creating a new, small, niche segment in the mature coffee market and its prospects for growing the business from 150 million to 1 billion Swiss francs within the next decade. The Nespresso system was a radical departure from most Nestle lines of businesses targeted to the mass market; the Nespresso story offers provocative lessons about innovation in large, highly structured organizations.

This case speaks about the history of Nespresso's development and the challenges for its future.

The beginning of the article describes Nestle's strategies for growth through innovation and renovation and describes the management's practices and views on promoting a climate for innovation. The article then goes on to describe the challenges the company faced as the company tried to grow the Nespresso business towards 1 billion Swiss francs. The Nespresso case touches on opportunity recognition, the characteristics of the corporate entrepreneur, and the necessary organizational structure needed in order to be innovative in this industry.

The case also covers the delicate transformation of an initiative from the entrepreneurial stage to institutionalization for sustained growth. The Nespresso machines were highly innovative due to its outward simplicity and masked complexity. The extraction process for the Nespresso machines was considered highly innovative because it incorporated years of research and

learning that would be hard for a competitor to replicate without patent infringement.

The Nespresso concept helped Nestle to outperform all of their competitors in quality and convenience.

Because Nestle held the patent for the Nespresso machines competitors could not copy their invention with committing patent infringement. The aim of the Nespresso product development was to combine Nestle's research and development strength with its deep knowledge of the coffee business to bring a high quality coffee product to the market. The Nespresso product was established in order to give Nestle a larger presence in the roast and ground segment of the coffee market, while bring quality to the market as well.

In the beginning there were a number of technical problems to overcome, but Nestle's R ; D organization resolved all issues.

The Nespresso product gained support from Nestle's food service division in the beginning, but was soon abandoned in favor of the office coffee sector. Later the company approached Sobal, a Swiss company, to assist in the distribution in the Nespresso system in offices and other institutions. The 100%-owned Nestle affiliate was established in 1986 in order to speed up the process of seizing the market opportunity in the newly created individual portion coffee category.

The company developed its own commercial, distribution, and personnel policies separate from Nestle and was exclusively responsible for promoting

products under the Nespresso brand name. A special production line was open in Switzerland at the Nescafe plant in order to produce the coffee capsules for the Nespresso system.

The Nespresso system was launched in Italy and Switzerland and by 1987 only half of the machines that had been manufactured had been sold. The company was behind target for the machines and the capsules.

There were also other worrying signs so the company had to rethink the Nespresso strategy. They hired Lang who rethought the Nespresso concept. This is where the renovation came in. They shifted the target market to the household market.

Lang's strategy was to position Nespresso away from the more utilitarian office coffee and target consumers at the top of the household market.

During this time Lang and his team introduced modifications to the designs, they renovated the coffee capsules to cut down on costs and make them recyclable.

Because they shifted their target market to the household Market Nespresso had to rethink the distribution process. This is when Lang came up with the idea of the Nespresso club, which handle service calls and offered consumers around the clock ordering, prompt delivery of fresh coffee, and personalized advice. The Club was an immediate success and was the first direct marketing experiment within the Nestle organization.

As a way to get the product out, the company contract with a few airlines to get them to start serving the Nespresso product onboard their first class long haul flights.

Top restaurants were solicited. Under Lang's leadership, NCS broke even in 1995 and as a result became one of the fastest growing business units in the Nestle organization. Lang made sure to create a climate for innovation in order to keep the Nespresso concept alive, however in 1997 Lang left and William Pronk took the reins. Pronk worked to enhance the customer service side of the business.

Pronk established several renovations in order to create customer intimacy, to build long term loyalty and put Nespresso on the road to becoming a meaningful concept in the competitive coffee world.

While the Nespresso concept had created and dominated an entirely new gourmet coffee category, several issues still needed to be resolved in order to accelerate growth in NCS. Pronk was concerned about five issues which included: 1) attracting new customers 2) going down market 3) distribution to serve a wider market 4) diversification into non-coffee products and 5) blocking competitors. Although NCS had reached a satisfactory performance, NCS had still fell short of Nestle's high ambition of 1 billion Swiss francs in sales and the question remained what must NCS do now to reach its ambitious growth targets?