

## **SUSTAINABILITY AT NESPRESSO. AN ENGINE FOR BUSINESS<sup>1</sup>**

*Sustainability is a topic that takes time. We are reaping now what we started in 2007*

Guillaume Le Cunff, CEO of Nespresso

Nespresso's sustainability strategy was built within the framework of Nestlé's Creating Shared Value (CSV) model. This meant that the company's activities not only complied with the law, but also ensured the conservation of the environment for future generations and created value for its customers, suppliers, employees, shareholders and society in general. Creating Shared Value was Nestlé's platform to go beyond sustainability to create long-term value for society. For all these reasons, sustainability has been part of Nespresso's strategy for almost 30 years.

Jean Marc Duvoisin, who had been CEO of Nespresso until January 2020, already said:

*"You cannot have the business strategy on one side and the sustainability strategy on the other. Sustainability must be an inherent part of the business model. The sustainability strategy cannot change when a new CEO arrives at the company. It is something that it is maintained beyond whoever directs it. For that it has to be part of the business model. At Nespresso it has been like this for a long time and we have done our job: we know the environmental impact of the plantation, of the cup of coffee and capsule recycling, and what we need to do to achieve our goals".*

Guillaume Le Cunff, his successor, faced various challenges but, above all, he had an ambition, to achieve net zero emissions in the fastest way possible:

*"We have been embedding sustainability in everything we do for more than two decades. We have now a lot of evidences that our approach resonates the CSV concept, delivering positive impacts at farm level, providing innovative and high end customer experiences, and eventually supporting our momentum as a brand and as a business. The next decisive decade expects us to find our path to Net Zero. We know there will be headwinds and lots of challenges to get there. We*

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<sup>1</sup>Case of the Research Division of San Telmo Business School, Spain. Prepared by professors Antonio García de Castro, Enrique Garrido and Rocío Reina.

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*are not totally clear on how to get there in such a period of time. But, without having all solutions in place yet, we are also convinced that this will bring us new opportunities to innovate, to engage further with our customers, eventually creating more shared value across our entire value chain.”*

## **NESPRESSO**

### **Portioned Coffee**

In 2022, Nespresso was the global leader in the market for individual coffee capsules. The beginnings were not easy and it took several years to achieve any profits. In 1986, Nespresso pioneered the segment of coffee in capsules and its brand continued to be the reference and preferred by consumers of coffee in capsules, all over the world. Exhibit 1 shows a timeline of Nespresso’s history.

For most of its history, Nespresso's sales had grown at an average annual rate of 30 percent. In 2021, organic growth reached 8.8 percent and its sales increased by 9.1 percent to CHF 6.4 billion. Nespresso had posted single-digit growth, driven by new consumer adoption, particularly for the Vertuo system, continued momentum in e-commerce, and a recovery in boutiques and other channels. There were major new product launches with the expansion of the World Explorations and Reviving Origins ranges. Overall, Nespresso gained market share, with contributions from most markets.

Sales 2021	Sales 2020	RIG	Pricing	ct. Organic	UTOP 2021	UTOP 2020	Margin 2021	Margin 2020
CHF6.4bn	CHF5.9bn	8.2%	0.6%	8.8%	CHF 1.5bn	CHF 1.4bn	23.0%	23.6%

The portioned coffee market, worth some \$16 billion in 2020, was the fastest growing and most dynamic segment of the global coffee market, and the trend seemed to remain positive. In Exhibit 2 you can see some graphs in this regard. Some estimates from the Reuters agency thought that in a decade coffee in capsules would be the main segment of the global coffee market.

Nespresso, according to experts and the general opinion in the sector, was one of the most profitable and fastest growing business units of Nestlé, being one of the multi-million dollar brands with which Nestlé obtained 70 percent of its income, as see Exhibit 3. Given the high profitability and despite the almost 2,000 patents that Nespresso had around the world, Nespresso had competitors. There was not only talk of capsules compatible with Nespresso machines but also of machines from other brands compatible with Nespresso capsules. Some analysts and experts commented that Nespresso and its managers would have to focus on these short-term issues more deeply.

Nespresso sold billions of capsules every year. The EBIT of these in 2015, (with approximately 5 grams of ground coffee and an average selling price of between 0.5 and 0.57 Swiss francs per unit <sup>2</sup>, depending on the type), was estimated to be around almost

<sup>2</sup> These prices are those of capsules marketed in Switzerland. Prices varied by country.

40 percent which more than doubled the average of the Nestlé Group, according to an article in the Financial Times <sup>3</sup>. The price of Nespresso capsules was totally linked to the quality of the coffee. Nespresso selected the best beans from the finest coffee-producing regions. It was coffee of the highest quality, according to the experts, thus fulfilling the necessary flavor and aroma requirements. They also offered personalized services that were adjusted to the way of life of the moment and the preferences of their consumers. In 2022, the Nespresso assortment included 30 “*grand cru*” <sup>4</sup> varieties from the original line and 35 from Vertuo and 19 for the professional channel.

Guillaume reflected:

*“I would say that the turning points in the last 20 years have been three. One was the opening of the boutiques, with an omnichannel proposal. Nespresso was born as a distant channel, the boutiques came later. The second milestone was the removal of the price barrier for the machine. The third turning point was George Clooney becoming brand Ambassador in 2006. Now it is the turn of Sustainability as a lever for growth”.*

Product innovation, machine technology, production process, marketing,... It was key and a constant at Nespresso.

In 2018, Nestlé reached an agreement to use the Starbucks license in large distribution for around 6,000 million euros (7,150 million dollars). Guillaume Le Cunff explained:

*“Starbucks is the asset that we were missing to compete in the trade channels. We were clear that we were not going to enter these channels with Nespresso branded products. So the competition was located there, where we were not. The Starbucks by Nespresso range is a great asset, because you can play this card in Trade channels while keeping Nespresso brand true to its differentiated direct-to-consumer business model. What is interesting with Starbucks by Nespresso is to regain market share with the traditional system, especially in Europe”.*

## **The competitors**

The first Nespresso competitors to appear on the portioned coffee market had their own proprietary systems. Senseo - developed by Philips for the European division of Sara Lee (in 2015, JDE, a specialized coffee company, joint venture of Mondelez and Master Blenders) - and Keurig's Green Mountain system in the United States were the first.

Nespresso-compatible capsules had also been appearing, which were a direct threat to its position in the market. JDE had launched the L'OR Espresso brand for the premium segment, a sub-brand of its strong Maison du Café, which sold the capsules made of plastic and aluminum at a retail price 20 percent lower than Nespresso's. JDE<sup>5</sup> sold its

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<sup>3</sup> “US Coffee trend bodes ill for growers”. Financial Times, July 21, 2015

<sup>4</sup> Grand crus is a concept that was born in the world of wine to refer to high quality wine: “great broth”. In the case of Nespresso, it is used to refer to the great Nespresso coffees.

<sup>5</sup> According to Sara Lee's website