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NESPRESSO

Strategy Reset for Growth

THE YOUTH MARKET



This case was developed by many valuable contributions of PC Abraham under the supervision of Professors Kamran Kashani and Goutam Challagalla as a basis for class discussion rather than to illustrate either effective or ineffective handling of a business situation. Some names have been disguised.



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The key strategic questions we face are: How to keep delighting our Base of loyal customers and, equally important, how to be a relevant brand to the young coffee consumers who will account for much of the market in the near future. Our research shows the youth have quite a different approach to coffee.¹

— Guillaume Le Cunff, CEO, Nespresso SA

INTRODUCTION

EARLY-2023. The top management team at Nespresso, the pioneer and worldwide leader of the capsule-based single-serve portioned coffee industry, was preparing to reformulate the company’s strategy in a rising market amid competitive challenges. Winning a viable market share in the large and growing global youth coffee market had been identified as a must-win by the top management team, led by the CEO Guillaume Le Cunff. The youth market would be a key driver to achieve the company’s ambitious growth targets in the highly contested industry for portioned coffee.

A high priority in capturing the youth market would be to make Nespresso a brand that resonated with the new generations of consumers who, according to the company’s research, found the brand sometimes “sterile,” “snobby” and more relevant to the lifestyle of their parents’ generation than their own.²

Another high priority for the youth market would be meeting the challenges of what management believed was a generally negative perception of the eco-sustainability of capsule-based portioned coffee, an industry-wide issue. The company had achieved carbon neutrality in 2022, an achievement certified by Carbon Trust. Although the company had announced a roadmap to net zero by 2050 at the latest, young consumers’ perceptions remained a barrier to overcome. With that objective in mind, a paper-based compostable capsule had been developed and was ready to be piloted in France and Switzerland.

Le Cunff, who had been appointed as CEO on 1 January 2020, having successfully grown Nespresso’s business in the US, explained the task ahead for the youth market:

A key question for Nespresso’s future is: How can we appeal to Millennials and Generation Z³ after 20-plus years of success with their parents? We

¹ The “Base” consisted of diverse profiles of existing consumers many of whom were the early adopters of the Nespresso system.

² Source: Nespresso’s graduate students research forums – details on page 10.

³ Millennials refers to those born between 1980 and 1995; Generation Z were born between 1996 and the early 2010s.

have to find new ways to make the brand relevant to the youth, including our work on sustainability.

The company's Chief Brand Officer, Andrea Sander, explained the challenge of appealing to the youth:

The young people we talk to absolutely understand what Nespresso is. We are not a foreign brand to them. But they don't feel this ownership or connection. They see it as their parents' brand; they are happy to consume our product but it's always going to be that distance of a nice and shiny thing. I don't think we fit into their world, their lifestyles or their conversation. This is what we must change.

Nespresso's Global Head of Strategy, Alex Albin, believed that the time had come to evolve the company's past's successful strategy but without abandoning it entirely:

We need to strike a balance between leveraging on our heritage while reinventing ourselves. There are many aspects that need to evolve and others that we should keep and absolutely not touch. We have to play on our strengths, one of which is innovation; it's in our brand DNA. Going back to our roots and not copying what others are good at.

Recently, Albin and his team had been asked by the CEO to develop the company's next five-year strategy for 2024-2028, outlining a clear growth plan for the youth market. The plan would include a long list of strategic decisions that would determine the future of Nespresso as a leading brand in a highly competitive market for portioned coffee.

The case describes in two parts the context for Nespresso's future strategy with a focus on the youth market. **Part One** provides the history of the company's unique strategy, the increasing rivalry in the portioned coffee market, and key features of the youth market and its importance for Nespresso's future. Company activities and challenges are covered in this section.

Part Two describes the key strategic decisions that remain to be made with a focus on young consumers. It raises issues and questions that need to be addressed in the five-year strategic plan.

PART ONE

DISRUPTING THE COFFEE MARKET

Nespresso was a player in the CHF 390 billion global coffee market – a market that was growing at a pace of 5% annually.⁴ The company, a wholly owned subsidiary of Nestlé – the world’s largest marketer of coffee products – was the leader in the system-based portioned coffee category that it pioneered in the 1980s. Referred to as the “disruptor” of the traditional coffee market, Nespresso’s system consisted of a patented machine and single-portioned aluminum capsules. Called the “Original Line,” the system allowed consumers to make at home what the developers claimed to be the equivalent of a barista-prepared high quality espresso coffee with the push of a button.

Nespresso innovations

Starting in 1974, Nestlé took no less than 14 years to develop a viable system and a strategy to commercialize Nespresso to consumers. Several technical problems had to be overcome and early forays into the B2B food service and offices markets were not promising. Against a backdrop of corporate disappointment and internal skepticism about the future of the system, in 1988 the small but passionate and resolute Nespresso team was separated from the rest of Nestlé’s vast coffee organization and put in a semi-autonomous company. In addition, a 33-year-old general manager was hired with no food industry experience but a successful career in the fashion business. In the words of Nestlé’s Senior Vice-President at the time, Camillo Pagano:

Nespresso was at a point where we needed an entrepreneur to take it further. We needed to find somebody who wouldn’t react like a Nestlé manager.⁵

Under the new leadership, Nespresso soon formulated a business model that was a radical departure from what had been done before and from Nestlé’s mass-marketing strategies:

- **Targeting:** Nespresso changed its marketing from a focus on the more utilitarian and price sensitive B2B segments by targeting *upscale households* as early adopters of a “super-premium” coffee-making system.
- **Distribution:** Nespresso decided in favor of a *direct-to-consumer* (DTC) distribution model, thereby avoiding mass retailing – a practice never tried before at Nestlé or by any other coffee producer.

⁴ As of late 2022, the US dollar to CHF (Swiss Franc) exchange rate was US\$1 = CHF 0.96

⁵ IMD case study “Innovation and Renovation: The Nespresso Story,” (IMD-5-0543), page 5, year 2000.

- **The Club:** Purchasers of a machine automatically became *Nespresso Club* members and could order coffee by phone, fax and, later, online for free delivery within 24 hours.

After an initially slow market response, the new business model began to show traction, putting Nespresso on a fast track for sustained double-digit growth. During the 1990s and into the 2000s, Nespresso expanded its operations and direct distribution model to 81 international markets and opened more than 800 elegantly decorated Nespresso Boutiques to sell machines, capsules and accessories. The expansion was supported by massive international advertising campaigns featuring the Hollywood actor George Clooney as Nespresso’s brand ambassador. The campaigns – with the tagline “*What else?*” – were credited with making Nespresso an “affordable luxury” for the mass market.

The introduction of less expensive lines of machines and a wider range of coffee varieties, sold at an average price of CHF 5 per sleeve of 10 capsules, helped Nespresso to grow its customer base and positioned the brand as a reference point for quality in an industry it had created and dominated. In 2010, Nespresso’s 10 million Club members bought CHF 3.2 billion of the company’s products, representing a compound annual growth rate (CAGR) of 32% over the previous decade.⁶

Entry of the “compatibles”

The fast growth of the portioned coffee market led by Nespresso, and the company’s gross profit margin estimated at around 85%,⁷ had attracted a number of competitors with their own patented systems. But none had impacted Nespresso’s growth or profitability.

The picture changed dramatically in 2010 when several key patents for Nespresso capsules expired. In that year a small number of major European coffee producers, notably Jacobs Douwe Egberts (JDE) and Lavazza, began introducing their own brands of coffee capsules which were compatible with Nespresso machines. Soon after, the number of so-called compatibles, which sold through retail chains at discounts of up to 45% below Nespresso prices, began to explode and so did the total market for portioned coffee.

By late 2010’s, more than 400 compatible rivals worldwide were challenging Nespresso’s leadership in the portioned coffee category. In the words of one executive:

The former “category of one” became a “category of 400-plus.”

While the company had continued to grow its sales, to reach CHF 5.9 billion in 2020, which represented 7% organic growth over 2019 sales of CHF 5.5 billion, its average

⁶ Sources: Nestlé Annual Report 2010, page 26; “In-depth test of Nestlé’s growth prospects: Growth set to accelerate,” Zurcher Kantonalbank. April 2021, page 13.

⁷ “Coffee Pods.” *Financial Times*. 18 August 2012.

annual growth rate since 2010 had declined to 6.3% and its market share stood at an estimated 31%.⁸

(See **Exhibit 1** for progression of Nespresso's sales, 1997-2022. The **Appendix** provides additional information on the global coffee market, with a focus on the portioned coffee category and Nespresso's key rivals.)

A new system: Vertuo Line

In 2014, Nespresso introduced its versatile new coffee-making system, Vertuo Line, in the US in response to an increasing consumer preference for long-cup and milk-based coffee beverages such as latte and cappuccino. Unlike the Original Line, which used 19-bar pressure to extract coffee, Vertuo used centrifugal extraction technology and larger capsules. It operated at a lower water pressure to produce milder, smooth-tasting coffee and thicker crema at the top. Given its versatility of coffee sizes and drinks, an executive referred to the new line as *"Your coffee shop at home system."*

The company's patents on Vertuo Line protected it through 2030.

(See **Exhibit 2** for images of the Original and Vertuo Lines, their machines and capsules.)

Nestlé and Starbucks: A licensing agreement

In 2018, Nespresso's parent company Nestlé reached a "perpetual licensing agreement" with Starbucks, the world's leading chain of coffee shops. Under the agreement, Nestlé would sell through its vast international retail networks all Starbucks-branded coffee products, including capsules compatible with the Original Line machines. The capsules were to be produced by Nespresso, a fact that would be mentioned on the package.

Characterized by the business press as a "bold" strategic move by Nestlé, the \$7.2 billion agreement was aimed at expanding the parent company's coffee product range and giving it a presence in the portioned coffee category under the well-recognized Starbucks brand. One senior Nestlé executive characterized the deal as:

Giving consumers a taste of the coffeeshop experience at home, and pushing back against compatibles in the retail channel – this is a big shift in our commercial strategy.

In the words of Albin, Nespresso's Global Head of Strategy:

The "Starbucks by Nespresso" value proposition allows Nestlé to offer a premium high-quality alternative to compatible brands on the retailers'

⁸ Source: Market share estimate by authors, based on published data on the global size and growth of the portioned coffee category and Nespresso's 2020 turnover.

shelves, while we at Nespresso focus on our exclusive direct-to-consumer distribution channels.

Starbucks capsules were sold at the same consumer price as Nespresso's, averaging CHF 5 for a sleeve of 10 capsules. By 2022, all Starbucks-branded coffee products sold by Nestlé in over 80 countries had generated CHF 1.5 billion in "incremental business," or 6.5% of the company's CHF 23 billion total coffee revenues.⁹

Nespresso management claimed no observable cannibalization of their own DTC sales by Starbucks-branded capsules, which were said to have cut into the market shares of leading compatible competitors.

CHANGING CONSUMERS

The coffee industry worldwide was witnessing a steady shift in consumer coffee preferences and habits. Coffee was increasingly consumed in ready-to-drink (RTD) format and out-of-home (OOH) in fast-growing specialty coffeehouse chains. These included the US-based Starbucks – the leader with more than 32,000 stores in 80 countries worldwide – Costa Coffee in Europe, Luckin Coffee in China, and Doutor in Japan. Moreover, cold coffee drinks were substituting for hot coffee. In China, for example, cold coffee beverages accounted for up to 70% of all coffees sold. Also, long cups mixed with milk and other ingredients were replacing Italian-style short and dark espresso coffee.

Meanwhile, the issue of sustainability was becoming a growing concern for consumers, especially among Millennials and Generation Z. The widespread use of aluminum and plastics by producers to protect coffee from oxidization was considered by environmentalists and consumers as waste and incompatible with sustainable practices.

Sustainability at Nespresso

Nespresso's sustainability projects began in the 1990s when management committed to recycling the company's aluminum capsules, starting in Switzerland followed by a number of other European countries in the 2000s. Nespresso also launched its AAA Sustainable Quality™ coffee program in 2003 in partnership with the Rainforest Alliance.¹⁰

⁹ Source: Nestlé presentation to analysts, November 2022.

¹⁰ The AAA Program offers coffee farmers training, technical assistance and direct investments to improve coffee quality, farm productivity and sustainability. The Rainforest Alliance implements long-term conservation and community development programs in tropical regions where large-scale production of commodities threatens ecosystem health and the well-being of rural communities.

The Global Head of Sustainability at Nespresso, Pierre Martin, reported that since 2014 the company had invested CHF 721 million in various projects across the company's value chain, from improving farm practices and providing support to small coffee farmers to massive recycling of used aluminum capsules. According to Martin, close to 80% of Nespresso capsules were made from recycled aluminum, a process the company referred to as "circularity." (See **Exhibit 3** for examples of Nespresso's sustainability projects.)

In late 2022, Nespresso reported that it had achieved a *carbon neutral position*, a milestone certified by Carbon Trust, a UK government-backed international organization.¹¹ In addition, management publicly committed the company to reaching *net zero* at the latest by 2050. The commitment required Nespresso to accelerate its investments in regenerative farming, as well as expanding capsule recycling. The upcoming launch of a paper-based capsule was another step in this direction.

Earlier, Nespresso had been granted B Corp™ Certification for its record on sustainability among other dimensions.¹² The company had to demonstrate social and environmental performance, change its corporate governance structure to be accountable to all stakeholders, and make information about its performance on certification standards publicly available. Patagonia, Body Shop and Ben & Jerry's were among major global companies that had also been certified as B Corps.

The conundrum of cognitive bias

Although management was proud of what the company's projects had achieved and of its ongoing sustainability investments, they were disappointed with how segments of the public – especially young coffee consumers – were unaware of the commitment and resources the company had devoted to its sustainability initiatives. They felt the perception issue was a persistent *industry-wide* problem associated with the packaging of portioned coffee in aluminum or plastic, materials that were seen by many as not ecological.

Most recently, a new independent study, carried out by the Environmental Sciences faculty and researchers at the University of Quebec in Canada, had concluded that preparing coffee using *single-dose* portioned coffee capsules was less wasteful and

¹¹ Carbon Trust defined its mission as follows: "... to accelerate the move to a decarbonised future... we partner with leading businesses, governments and financial institutions to accelerate their route to Net Zero."

¹² Benefit Corporation, also known as B Corp, is a US-based global network that defines its mission as "Transforming the global economy to benefit all people, communities, and the planet... We're building the B Corp movement to change our economic system – and to do so, we must change the rules of the game."

more ecological than the two traditional methods, namely *filtered* and *brewed* coffee, the latter also called *French press*.¹³

The study, which received extensive coverage in the international press, looked at the *carbon footprint of a cup of coffee* from the coffee farm, where the green beans were produced, all the way through the logistics and production chains of transport, roasting, grinding and packaging, and then to the consumer's home, where water was heated for coffee and washing the cup, and finally, to disposal of the waste produced. To calculate the carbon footprint of coffee capsules, the study assumed "a worst-case scenario" of disposal by "landfill."¹⁴

The authors reported that their life cycle assessment (LCA) study had revealed two important facts. First, most of the total carbon footprint of coffee, between 40% and 80%, was generated at the farm level due to intensive use of fertilizers, pesticides and irrigation. Second, the two traditional methods of preparation – filtered and brewed – tended to use more coffee and water per cup than was required and consumed more energy to heat the water for coffee and keep the coffee warm. In contrast, the study found, single-dose capsules saved on all three carbon-producing elements: coffee, water and energy.

Nespresso had noted in its 2022 sustainability report that farmers who had joined the company's AAA Program had already reduced their carbon emissions by half, following the sustainable agriculture practices recommended by the Rainforest Alliance.

Still, the Canadian study had found *soluble* (i.e. instant) coffee had an even lower carbon footprint per cup when compared with coffee capsules, although this form of coffee was not a popular or trending consumer choice in many parts of the world.

In explaining the study's counterintuitive conclusions regarding coffee capsules, one of the authors of the study was quoted by the BBC (British Broadcasting Corporation):

*"I don't think that capsules are a miracle solution. But it is a good example that illustrates our cognitive biases."*¹⁵

THE YOUTH MARKET

Together, 1.7 billion Millennials and 1.8 billion Generation Z accounted for 44% of the world's population. Western Europe and the United States (the two most important portioned coffee markets) accounted for 5% and 4% of this group's population,

¹³ <https://theconversation.com/heres-how-your-cup-of-coffee-contributes-to-climate-change-196648>

¹⁴ Source: Information from an author of the study in an email to case authors regarding research methodology.

¹⁵ <https://www.bbc.com/news/world-us-canada-64293750>

respectively. Asia was dominant with 55% of the group’s population, with India (19%) and China (16%) being the largest. The rest of the world, including Africa, Australia and Latin America, accounted for the remaining 36%.¹⁶

Incomes of the young generations were expected to grow rapidly between 2020 and 2040, with Generation Z consumers projected to more than double their incomes from a low base and Millennials reaching their peak earning and spending years in this period. These young, digital-savvy and independent-minded consumers tended to be more socially responsible than older consumers, a tendency that was reflected in their purchase decisions. Generation Z consumers were more conservative in their spending and less brand loyal than Millennials.¹⁷

Voices of young consumers: The Forums

Among recent initiatives to better understand the youth market, Nespresso management approached 30 internationally diverse graduate university students, aged between 25 and 30 years old, to obtain their perspectives and provocative ideas. At events called Forums, groups of students were given a single open-ended question to deep-dive, debate and provide feedback on to senior company executives, including the CEO:

“How can Nespresso be more relevant to you?”

The feedback provided by the teams working independently touched on five themes summarized in **Exhibit 4** which also includes highlights of interviews with a number of participating students about their favorite “cool” brands in any product category, and what to them Nespresso stands for as a brand of coffee.

The following representative comments from the individual interviews revealed coffee consumption behavior, beliefs and feelings:

Nespresso coffee is something you consume at home or at work. It’s not something that you drink outside of those two places.

An espresso shot is very easy to make in my kitchen whereas a Frappuccino, Macchiato or Carmelita is not. Of course, you have this beautiful Nespresso machine that can do the milk and stuff, but I think people are lazy and get bored of doing it at home. It’s much easier to go to a coffee shop.

When it comes to my generation, I think it’s more about the coolness of the coffee, and an espresso shot is not cool at all. It’s two sips and it’s done in 30 seconds. We want time to drink the coffee. And there is also

¹⁶ Source: Passport, Euromonitor International, “Coffee in World – Datagraphics,” April 2022.

¹⁷ Source: Engaging Millennials and Generation Z in the Coronavirus Era, January 2021, Euromonitor Passport.

the experience. When you go to Starbucks, you sit there, you have the free Wi-Fi, you can chat on Instagram, you make a story.

Albin, the Global Head of Strategy, understood the background to what he had heard from the students. He noted:

Unlike their parents who were introduced to coffee at home, today's younger crowd enter into coffee consumption through Starbucks and the ready-to-drink cans you find in convenience stores. Coffee was about stimulation - you wanted your kick in the morning at home. The coffeeshop frenzy changed that and made coffee a product of indulgence and refreshment. It's about the latest innovations.

BRAND ELEVATION

Early in 2020, soon after his appointment as the CEO, Le Cunff asked Sander, the company's Chief Brand Officer, to examine the status of Nespresso's brand communication and propose ways to adapt it to the company's changing consumer and competitive priorities.

Online research among general coffee consumers in the US, UK and France had shown that Coffee Quality ranked as the top driver of choice by far, followed by Brand Trust and Sustainability (see **Exhibit 5**). Based on the recent information gathered through the youth Forums, however, it was believed that sustainability would rank higher, or even the highest, for young consumers.

Following an extensive review of Nespresso's database on consumer brand image, and after initiating internal discussions regarding an updated brand policy, Sander and her team proposed a "Brand Elevation" strategy led by the overarching objective of revitalizing Nespresso's consumer image for long-term growth. A central theme of the new communication strategy was Nespresso's record on sustainability.

Sander explained:

Achieving our growth ambitions calls for radical measures to gain consumer trust for sustainability and for our super-premium coffee quality. We want Nespresso consumers to know that their coffee is making a positive impact on the environment with "fact-based actions" and not just words. It calls for elevating the brand in multiple dimensions.

A new Brand Platform

Elevating the brand for growth manifested itself in proposals that, according to Sander, were inspired by Nespresso's heritage as a pioneer and an industry disruptor. They were also inspired by the Swiss reputation for precision and uncompromising quality, as seen

in its highly successful watch industry. Nespresso's attention to the environment and sustainability was for the first time integrated in the proposed Brand Platform.

The Platform was subsequently adopted by top management and communicated to the company's 81 country markets worldwide as Nespresso's new guidelines for local brand communication.

(See **Exhibit 6** for highlights of the new Nespresso Brand Platform; **Exhibit 7** shows an example of a past print ad for the Original Line, in addition to recent ads based on the new Platform for the Vertuo Line.)

Communicating to the youth

Becoming relevant to the younger generation was Sander's number-one priority and toughest challenge:

We need to engage with this new generation of consumers. The student Forums showed that we must find ways to make them feel they are part of the brand and connect with them in ways that spark "coolness" and create talking points around the brand. We really need to radically rethink the consumer journey if we want to become relevant to this segment.

A significant first step towards connecting with the young consumers was taken during the late spring and summer of 2021. It involved engaging Chiara Ferragni, a 33-year-old internationally recognized entrepreneur, considered by *Forbes* magazine as a top Instagram star with 20 million – mostly young – followers, to give Nespresso visibility and generate excitement in the media favored by the youth. Also known as a designer, Ferragni participated in the design of some limited edition co-branded collections of coffee machines and accessories, which were sold in Nespresso Boutiques around the world (see **Exhibit 8**). She also took part in many company-sponsored events, including appearing as a guest at the 2021 Cannes Film Festival, in France, wearing an elegant dress embellished with recycled aluminum.

A post-campaign analysis of impact led management to report that collaboration with Ferragni had been a success, bringing "tremendous visibility and engagement to Nespresso." Results of the campaign included increased brand visibility in social media, increased visits to Nespresso boutiques for Ferragni designed products by younger women, many of whom were ordering Nespresso coffee for the first time (see **Exhibits 9 and 10**).

The analysis also highlighted that Millennials were particularly positive about the collaboration with Ferragni. Less was known about the campaign's impact on Base customers.

PART TWO

STRATEGY RESET FOR GROWTH

In early 2023, management reported 2022 sales revenues of CHF 6.45 billion for its Nespresso branded products, reflecting growth of 3.5% over 2021 at constant exchange rates. The low growth was attributed to the unprecedented increase worldwide in-home consumption of coffee during 2020/21, because of Covid-related restrictions and remote work at home. By 2022, global home consumption had dropped from its peaks.

The year's sales data also showed increased customer acquisition in North America and Asia, and accelerated growth of Vertuo sales in these two large regional markets. Europe was lagging behind.

Mandated by the CEO, Albin and his strategy team had already begun the preparatory work on the next five-year strategic market plan, for 2024-2028, with a special focus on the youth coffee market. Although management did not divulge their future ambitions, it was estimated that the targeted annual growth was set at a high single-digit figure, thus aiming for significant total growth of Nespresso branded sales by 2028. It was further projected that a relatively important share – at least 10% – of the 2028 target revenues would be generated from sales to the youth market. The estimated current share of sales to that market was significantly below 10%.

If achieved, the planned five-year average growth would be above the global growth of portioned coffee, thereby reinforcing Nespresso's leading market position in the increasingly price-active and commoditized category that portioned coffee had become.¹⁸

Albin and his team had already begun a review of Nespresso's current market and competitive situations as the first step toward a reset of important decisions better adapted to Nespresso's demanding business environment and the drive towards the youth market.

Criteria

Although the youth market remained a top priority for the foreseeable future, senior management had also agreed that all strategic decisions had to meet two criteria:

¹⁸ The authors' estimates were based on data from the Zurcher Kantonalbank report, "Nestlé: In-depth test of Nestlé's growth prospects," April 2021, (pages 13-15); and projections of increased customer acquisition for Vertuo, in North America and Asia in particular, taking into account the system's higher per-cup prices. The possible impact of increased home consumption due to any future Covid-related restrictions was not considered in the estimates.

- *The Base*: Nespresso should protect and defend its current profitable consumer base from further erosion by compatibles.
- *Youth market*: Decisions aimed at expanding Nespresso's share of expenditure from younger coffee consumers should not polarize or turn away customers in the company's Base. Ideally, such decisions would be equally appealing to both segments.

For Albin there was one other criterion for the future – one that he believed many in the company shared:

Nespresso has been a trailblazer and a disruptor. Copying others is not Nespresso. Whatever decisions we make will follow the first rule in strategy "Identify and leverage your strengths," which in our case is our proven ability to stay at the forefront of innovation. That's our brand's DNA and that's what we intend to do.

DECISIONS

Nespresso's strategy reset with a clear plan for the youth market involved changes in a range of decisions covering target consumers, product lines and formats, brand communication, pricing and routes to market. Once approved by Le Cunff and his top team, the strategy would be presented to the top management of the parent company Nestlé for their approval before implementation.

I. Target consumers: The "Experientials" and "Elevators"?

A recent study of the global coffee market conducted by Kantar, an international consulting company, had identified six consumer "Archetypes," or segments, each reflecting different consumer drivers of choice. Each Archetype was designated by a name reflecting the unique characteristics of the segment (see **Exhibit 11** for a description of the Archetypes).

For another view of the Archetypes model, the study had profiled the six segments along two attitudinal dimensions of "Progressive vs. Traditional" and "Experiential/emotionally led vs. Habitual/routine/functionally led" (see **Exhibit 12**; the ratios of Archetypes among coffee consumers and their relative expenditures are also shown in the exhibit).

Viewing Kantar's consumer Archetypes, Albin and his colleagues believed the company's current consumers were skewed toward "Mindful" and "Experiential," although on a regional basis there were important differences. For example, in the large but low-growth European markets, Nespresso's current Base of consumers fell in the 40- to 60-year-old category; in the fast-growing North American and Asian markets, the consumer base was much younger. Albin explained how Nespresso viewed the Archetypes of interest:

We welcome consumers from any and all consumer Archetypes. But for future innovation and brand communication, we want to be inspired by younger consumers, especially those found in the Experiential and Elevator Archetypes.

In addition to identifying promising youth segments, Albin and his team were also working on the steps Nespresso would take to defend its current consumer Base from competition, with the aim of enlarging the brand's share among this large and diverse group. The somewhat older group, best represented by the "Mindful" Archetype, had its own unique characteristics that had to be considered in future decisions.

The final choice of priority Archetypes would inspire and drive the content of the remaining strategic decisions.

II. Product line: Paper capsules and a new youth line?

For the last three years, Nespresso had been experimenting with new compostable substitutes for its aluminum packaging. In late 2022, management announced a "breakthrough" *paper*-based capsule that was entirely compostable and could be discarded in the compost bin by consumers. In its press release, the company said the new capsules had a biopolymer lining inside that protected coffee taste against oxidization during shipment and storage, as did aluminum for its current range. The new innovative capsule, viewed by some as a potential "game changer" for the portioned industry, was designed initially for the Original Line and was due to be piloted in 2023 in France and Switzerland with a limited range of coffee varieties.

A number of questions remained for the future of the paper-based capsule. How would different consumer segments react to it? Would it be the choice of current consumers who habitually sent their used capsules to recycling collection points? Or would sustainability-conscious young consumers overcome their hesitancy and adopt Nespresso in its new compostable capsule? And if the adoption of paper-based capsules in the pilot markets proved encouraging, should these capsules be marketed alongside those in aluminum packaging, thus giving consumers a choice, or should they replace the aluminum entirely? It was understood that offering two types of packaging side by side was a more expensive option due to the supply chain complexity.

A new product concept that had come out of the student Forums was a *youth line* of coffee specifically targeting occasions when young people consumed coffee such as, for example, a mild and relaxing coffee variety to "*Chill-Out*," energy booster brews for an "*All Nighter*" and intense coffees for the "*Morning After*."

If adopted, this would be the first time in Nespresso's history that a sub-brand was created for a particular consumer segment. The alternative of launching a second brand detached from Nespresso for young consumers was not considered a realistic option, largely because of the high costs of building a completely new brand.

Cold coffee beverages, in a ready-to-drink (RTD) format and sold in convenience and grocery stores, was not being considered among future product options. Although young consumers preferred this format, it was felt that the market for RTD cold coffee was already crowded, with products from companies such as Starbucks, Suntory, Coca-Cola and even Nestlé with its Nescafé Cold Brew.

Finally, the encouraging performance of the patented Vertuo Line among younger consumers in North America and Asia was giving management a strategy option of targeting the system more pointedly toward the youth market in Europe, where the low-growth Original Line was still dominant. It was a strategic decision that could potentially negatively impact the sales of the system to older consumers in the Base, a relatively large segment in Europe.

III. Brand communication: *How to engage the youth?*

The youth market strategy had two interrelated sets of challenges in brand communication: *sustainability* and *positioning*, or the brand's character and message.

Sustainability

Research had reconfirmed young consumers' skepticism about the authenticity of big corporations' claims about their record on sustainability. Le Cunff, who early in his career at Nespresso had been responsible for sustainability, was deeply concerned about this thorny trust barrier. Invariably, in every conversation he had with young people, sustainability was the first topic that came up. It was a consistent top-of-mind issue for them.

He exclaimed:

If I only had five minutes with every young person I meet to explain what we are doing, I could change his or her mind about our record on sustainability.

Martin, the Global Head of Sustainability, was equally concerned about the trust issue:

To avoid our hard work being dismissed as just another corporate "greenwash" and to reassure consumers that capsule coffee is more eco-friendly than the traditional methods of preparing coffee, we need to inform and engage consumers in our sustainability activities. Today's young consumers want to know what's happening in our business; they are curious and want to contribute. That means there is an opportunity to engage young people factually and emotionally as a partner in our sustainability journey. That's our challenge.

Authentically communicating the company's fact-based record on sustainability through the media would be a tough task for Sander and her team. They were aware of the risks of "oversell" to independently minded young people who would penalize brands for

“greenwashing” or for hyped dedication to ecology. Research had shown that these naturally skeptical consumers preferred authenticity and openness over self-aggrandizement.

(See **Exhibit 13** for examples of past and recent sustainability print ads.)

As to the future, the student Forums had generated a number of ideas that could potentially be adopted as sustainability-focused communication vehicles (see **Exhibit 4**).

For the brand team, any idea had to meet the authenticity test in addition to being innovative and aligned with Nespresso’s Brand Platform. A more immediate question was how to communicate to the general public in pilot markets the arrival of an eco-friendly paper-based capsule, a message that would authentically resonate with both the base and younger consumers. But were facts enough to engage the youth with the company’s sustainability efforts?

Positioning

The brand team considered the recent experiment with Ferragni a huge success, especially with young women. Nevertheless, decisions had to be made about the use of highly visible young and popular figures as part of the brand’s long-term positioning strategy. Nespresso’s decades-long engagement with the Hollywood actor George Clooney as its suave and cosmopolitan brand ambassador had a dramatic impact internationally on new consumer acquisition among the Boomer generation. The question remained: Could “*young and cool*” ambassadors do the same for the youth market?

A significant concern for the brand team was the impact that a successful positioning of the brand toward the youth market might have on the company’s current Base. The risk of alienating the profitable loyal Base could not be ignored.

IV. Pricing: A youth-friendly price policy?

Nespresso capsule prices generally reflected local market conditions and their consumers’ price sensitivity. For example, the Original Line capsules sold in the US averaged CHF 0.79 each vs. CHF 0.41 in France.¹⁹ Similarly, the price of Vertuo Line averaged CHF 1.20 in the US and CHF 0.65 in Western Europe.

By long-standing policy Nespresso abstained from aggressive price competition with compatibles. Management believed that the company’s coffee quality and more than 30 flavor varieties, the largest in the market, were sufficient differentiators to justify the price premium. The only exception to the policy was the price of machines, which was kept low to promote new customer acquisition.

¹⁹ Zurcher Kantonalbank report, “Nestlé: In-depth test of Nestlé’s growth prospects,” April 2021, p. 14.

The pricing of coffee for young consumers remained a complex issue. As identified by the student Forums, limited budgets and perceptions of Nespresso as a luxury brand belonging to a different generation were two obstacles to overcome for the youth market.

Still the irony of young people in some countries spending upwards of CHF 5 at Starbucks on a Cafe Latte or Grande Caramel Macchiato was giving Nespresso strategists reasons to doubt whether the coffee price, as such, was a real barrier or just an artifact of perceptions. If the latter, did this suggest that, for example, the company should promote the lower cost of preparing milk-infused coffee drinks with Vertuo Line at home as “good value” compared with similar products sold in coffee shops?

The bigger question remained: How to make price less of a driver of choice for young consumers accustomed to paying much higher prices at coffee shops?

V. Routes to market: Amazon and “Nespresso Cafés”?

For more than three decades, Nespresso exclusively pursued a DTC distribution strategy worldwide. But, starting in 2016, it reached an agreement with Amazon US as another channel for customer acquisition, offering machines and capsules in that market. Nespresso’s US management reported that the policy had attracted new customers and generated incremental revenues without noticeable cannibalization of Nespresso’s own DTC sales.²⁰

Jean-Rico Mettler, Nespresso’s Global Head of B2C and architect of the collaboration with Amazon, was enthusiastic about the results in the US:

Amazon has turned out to be a fantastic new customer acquisition tool for us; with them we started to tap into the younger generations, customers who were born with Amazon... It gave us an opportunity to access a whole new segment.

Some argued that if Amazon became a major route to market, the company could lose profitability as more consumers placed orders through Amazon than directly with Nespresso. Others claimed that Amazon’s referral service, which cost Nespresso 15% off consumer prices, offered the potential for major savings by allowing the company to reduce the number or even close its 800 elegant boutiques worldwide. An added argument for third-party online routes to market was their popularity with younger consumers everywhere.²¹

Another strategic option, which had been excluded, was the idea of a chain of Nespresso Cafés serving all varieties of coffee and coffee-based beverages. Two main reasons

²⁰ Customer “referral” orders generated by Amazon were fulfilled and delivered by US Nespresso’s inhouse DTC channel.

²¹ Amazon’s standard commission for the referral service was 15% for the majority of its suppliers.

were given for not pursuing the Café concept. First, the growing market for OOH – while highly popular with the youth – was served by deep-rooted and powerful players such as Starbucks, thus making it difficult for a new entrant to establish a profitable foothold. Second, according to Albin, “*Cafés are a different business,*” where Nespresso’s brand reputation alone would not be enough for success in what he believed to be primarily a service business.

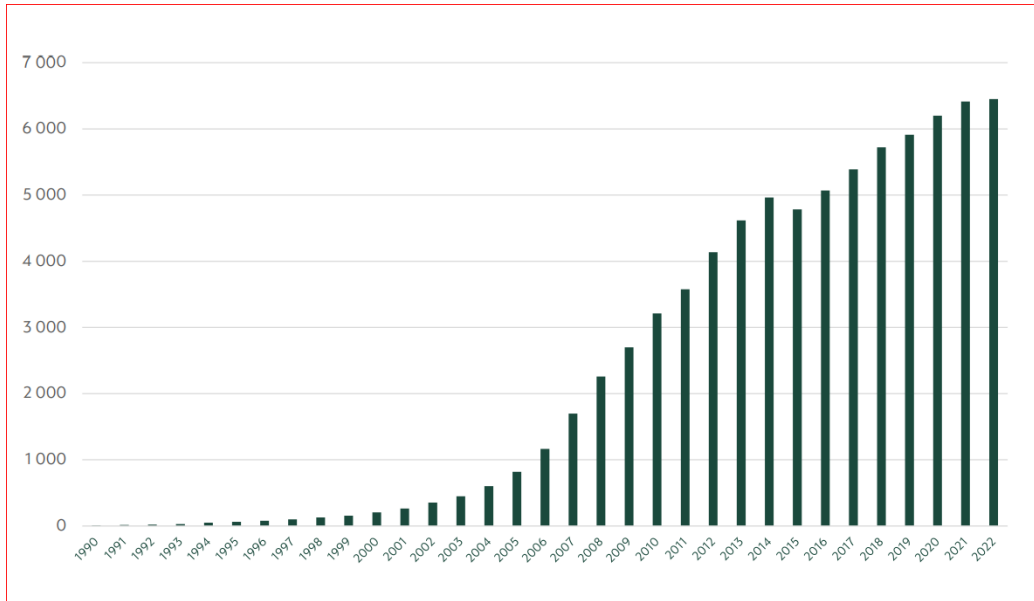
Still, Mettler and his team were searching for other viable new channels that would give young consumers, and others, easy access to the company’s current and future products. Among such options were vending machines strategically located where young people gathered.

CONCLUSION

Decisions for the 2024-2028 strategic plan would be made against the backdrop of a slowing market for portioned coffee and relentless competition from compatibles.

In this context, Le Cunff and his top team were searching for a number of pivotal strategic ideas that would enable Nespresso to achieve what he called an “inflection point” in its growth trajectory, one that would put the company on a path to significantly grow its top line. Making serious and substantive inroads into the youth coffee market was a key objective for the company’s strategic reset and a must-win for Nespresso’s future.

Exhibit 1: History of Nespresso's sales development 1990-2022 (CHF million)



Note: Sales figures include revenues from Nespresso's "Professional" systems and pods sold to office, hospitality and food service segments, which in 2020 accounted for less than 10% of the total turnover. They exclude sales of Starbucks-branded capsules produced by Nespresso and sold by Nestlé.

Source: Company reports

Exhibit 2: Examples of Nespresso Original and Vertuo Lines



Original



Vertuo

Source: Company information

Exhibit 3: Examples of Nespresso’s sustainability activities: 2014-2022

Upstream: At the farm

- Nespresso invested about CHF 40 million annually in the AAA coffee sourcing program with the support of the Rainforest Alliance, an international NGO that aimed to increase the supply of sustainable quality coffee while improving farmers’ income. By 2020, 93% of coffee was sourced via this program.
- As part of the AAA Program, 415 agronomists worked closely with 140,000 farmers in 18 countries to introduce sustainable organic farming practices and improve the quality of raw coffee beans. This work included regenerative agriculture where coffee production had stopped, often due to wars, and investment in restoring organic content to soils depleted due to overuse of chemical fertilizers and pesticides.
- Almost half of all coffee (48%) was sourced from farms certified by Fairtrade and the Rainforest Alliance. This provided farmers with minimum price protection, a price premium and market access.
- To offset close to 100% of the company’s carbon footprint, 5.2 million trees were planted in coffee producing regions of Colombia, Guatemala, Ethiopia, Kenya, Indonesia, Uganda, Costa Rica, Nicaragua and Brazil.
- Nespresso undertook to guarantee farmers minimum farm-gate prices and make available to them insurance against crop failure.
- Partnering with an American non-profit organization, Nespresso worked to provide 80,000 people in South Kivu, in conflict-ridden Democratic Republic of Congo, with access to clean water and clinics.

Downstream: Beyond the farm

- Spending CHF 58 million annually on recycling, Nespresso had built sufficient capacity globally to ensure recycling of 90% of its used capsules. Yet that capacity was operating at only 32% due to consumer indifference in some markets or lack of awareness in others.
- Nespresso had begun manufacturing capsules using 80% recycled aluminum in 2020. These accounted for 31% of its capsules in 2020. The company aimed to raise the volume to 100% by the end of 2023.
- Nespresso machines were redesigned to minimize energy use and make its parts recyclable. New machines were to meet stringent sustainability standards.
- Nespresso boutiques were eco-designed to minimize energy and water consumption.

Source: "Creating Shared Value – The Positive Cup Report (2014-2020)"; <https://www.sustainability.nespresso.com/reports>

Exhibit 4: Feedback from Youth Forums and individual interviews

How can Nespresso be more relevant to you?

1. ***Put “circularity” at the center:*** From start to finish, everything that Nespresso does should be ecofriendly (e.g., ecofriendly design, eliminate plastic and aluminum, easy recycling). Most important, provide proof that Nespresso is not greenwashing.
2. ***Communicate, co-create:*** Nespresso’s eco-initiatives are not well known. The company needs to tell its story using multiple media and events. However, it is just as important to involve young consumers in the storytelling by making some into ambassadors and influencers.
3. ***Be where the consumer is:*** Youth are frequently studying in groups or simply hanging out with friends. Create out-of-home experiences (e.g., Nespresso coffee trucks, Nespresso Cafés) relevant to this lifestyle.
4. ***Make high quality affordable:*** High quality coffee shops are unaffordable for frequent coffee consumption. Develop vending machines that can provide high quality coffee at affordable prices. Create affordable coffee varieties for the youth.
5. ***Personalize:*** Use an app to create a simple consumer journey that is personalized. Suggestions include using QR codes at vending machines for ordering, to make the experience cashless, and provide personalized coffee recommendations based on one’s “mood.”

Individual interviews

Favorite brands

- *Patagonia* – for its commitments to sustainability, willingness to fix product issues (e.g., broken zipper) which makes products last longer, inspired by the “philosophy of doing good.”
- *Under Armour* – being unique and the underdog in sports fashion.
- *Nike* – Fight against racism.

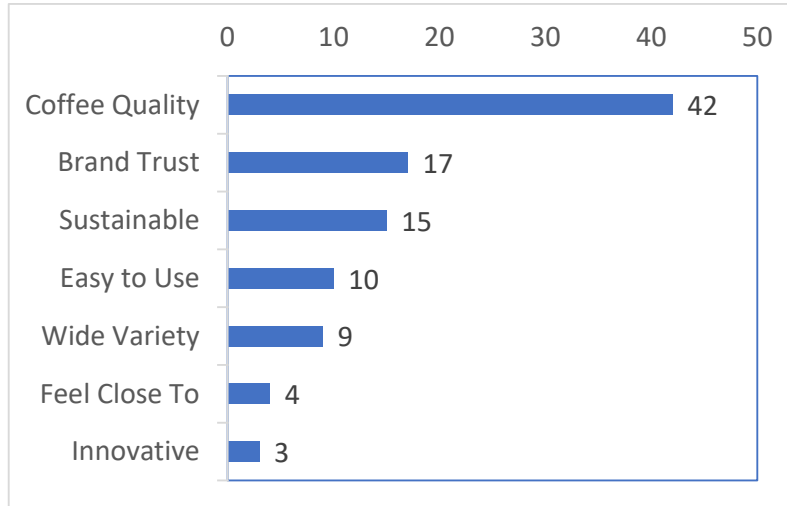
Words that come to mind to describe Nespresso:

Convenience, annoying-to-dispose-of capsules, high-end but mainstream, free delivery, simplicity, luxury, beautiful machine, high price for youth.

Source: Company information and interviews conducted by the case authors

Exhibit 5: Choice drivers of general coffee consumers (US, UK, France)

% of total respondents, based on an online survey



Source: Company information

Exhibit 6: Highlights of the Brand Elevation Platform

BRAND PROMISE

“WE OFFER THE MOST REFINED COFFEE EXPERIENCE IN THE WORLD THAT PRESERVES THE BEST OF OUR WORLD WITH HUMAN CARE AND CREATIVITY.”

BRAND CHARACTER

TRAILBLAZER
CHARISMATIC
STYLISH

DIFFERENTIATORS

DISCOVERY OF EXTRAORDINARY COFFEES
CONSCIOUS PIONEER IN PRESERVING NATURE

DESIGN PRINCIPLES

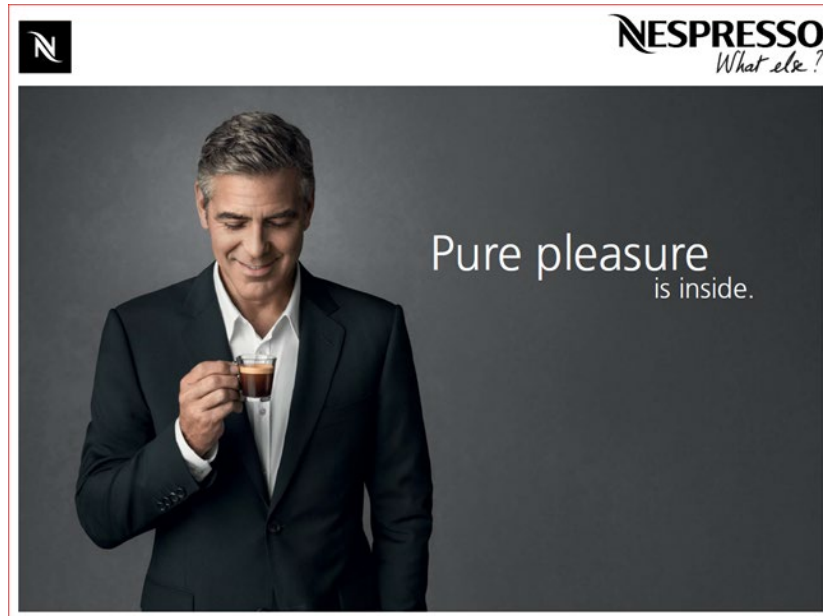
ICONIC: CONFIDENCE IN A SIMPLE AND BOLD APPROACH
AUTHENTIC: COMMITTED TO PEOPLE AND NATURE
ARTISTIC: DRIVEN BY CREATIVITY TO INSPIRE EMOTIONS

PHOTOGRAPHY

LESS IS MORE: STYLISH SIMPLICITY, REFINED MINIMALISM
COFFEE IS THE HERO, NOT THE MODELS

Source: Company information

Exhibit 7: Examples of Nespresso's past and recent print ads



Year: 2013



Year: 2021/22

Exhibit 7 (continued)



Year: 2020/21



Year: 2020/21

Source: Company information

Exhibit 8: Chiara Ferragni with her limited edition Nespresso accessories



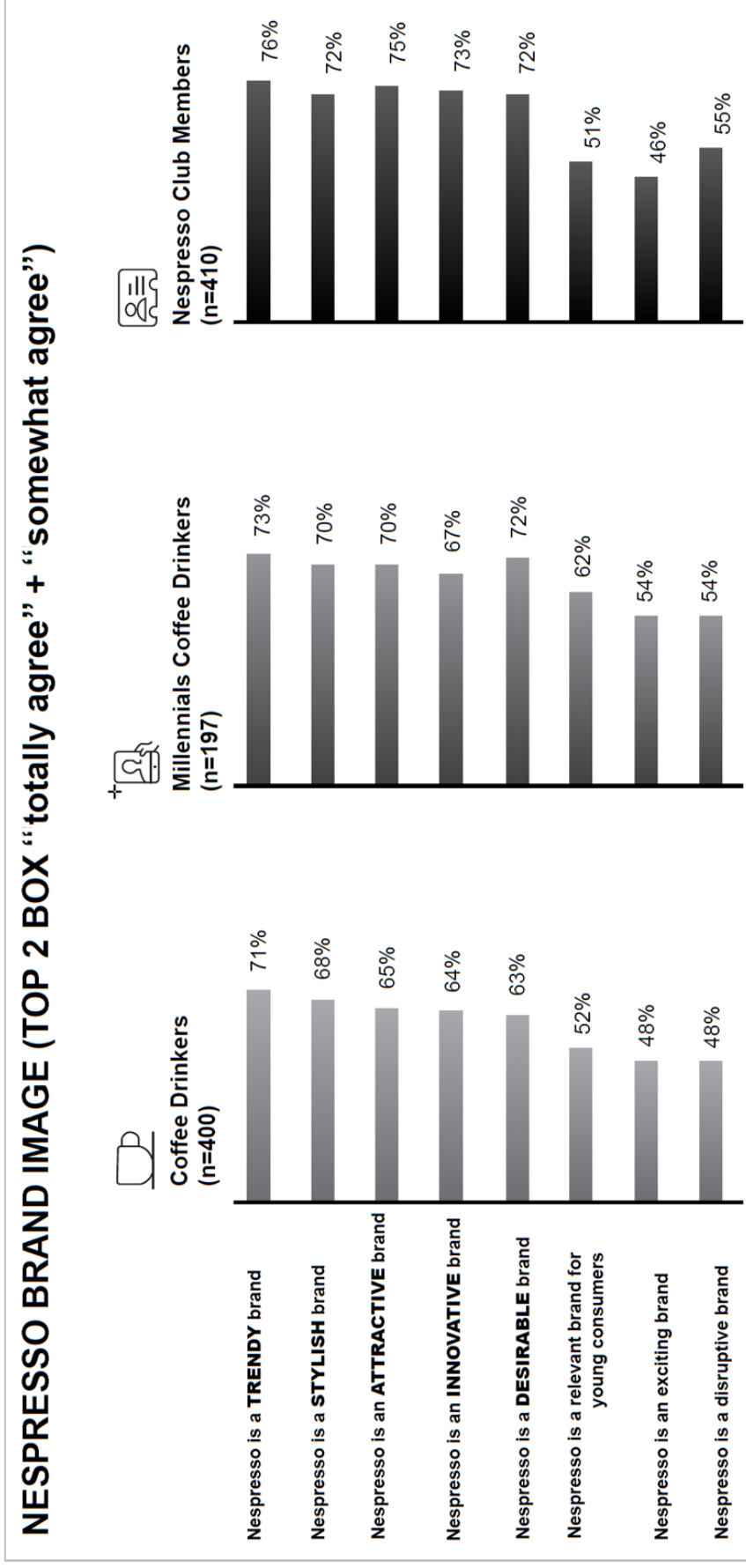
Source: Company information

Exhibit 9: Highlights of Chiara Ferragni campaign results

- Social media presence increased brand visibility.
- Increased mentions of Nespresso brand by 39% in both social media and the traditional press.
- Young women drove 88% of social media conversations.
- Nespresso Boutiques reported a younger profile of consumers, many of whom had never visited an outlet before, interested mainly in Ferragni designed coffee and travel mugs.
- A significant 43% of consumers who purchased the accessories also ordered Nespresso coffee for the first time.

Source: Company information

Exhibit 10: Brand image study following Chiara Ferragni campaign



Source: Company information



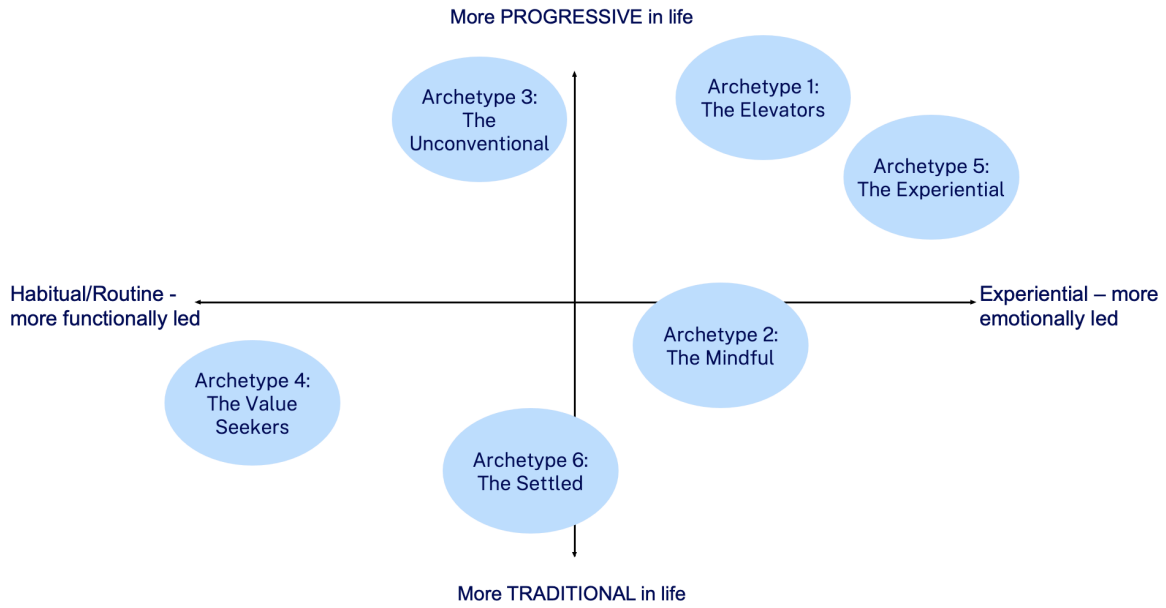
Exhibit 11: Global coffee consumer Archetypes

The Archetypes	The Elevators	The Mindful	The Unconventional	The Value Seekers	The Experientials	The Settled
Life characteristics	Leading-edge, innovative, ambitious, value aesthetics and design	Self-disciplined, prioritize health, thoughtful, open-minded	Counter-culture, innovative, trendy, individualistic, spontaneous	Value seeking, convenience driven, wanting more from life	Explorative, on-trend, optimistic, knowledgeable, environmentally aware	Mature, family & community first, nurturing, loyal, pragmatic
Demographic skews	Age: 18-44 Income: Mid to high	Age: 45+ Income: All	Age: 18-34 Income: Mid to high	Age: 18-34 Income: Low	Age: 24-44 Income: Mid to high	Age: 55+ (oldest) Income: Low
Coffee profile	Highly engaged in the coffee category & inquisitive - on a journey when it comes to coffee	Lover of all types of coffee, it's their little indulgence - less into instant	New to coffee & still developing the palate for coffee - but are curious about coffee	Good, solid coffee drinkers - nothing special. Coffee is about affordability & convenience	Coffee is about discovery & experience - new blends, exotic locations	Established coffee drinkers, know what they want – mainly R&G (roast and ground). Freshness & customization
Coffee types	Drink broad range including RTD (ready-to-drink), instant, whole bean – capsule	More filter & capsule machine owners	Drink soluble, RTD, R&G. Own whole bean machine, manual espresso	All types - less whole bean. Own filter & capsule machines	Drink whole beans, R&G capsules. Own fully automatic & capsule machines	Drink mainly R&G. Own mainly filter or pad machines

Note: R&G, roast and ground, is often referred to as “ground coffee.”

Source: Company information adapted from Kantar Consumer Archetypes report commissioned by Nespresso

Exhibit 12: Attitudinal profiles of coffee consumer Archetypes



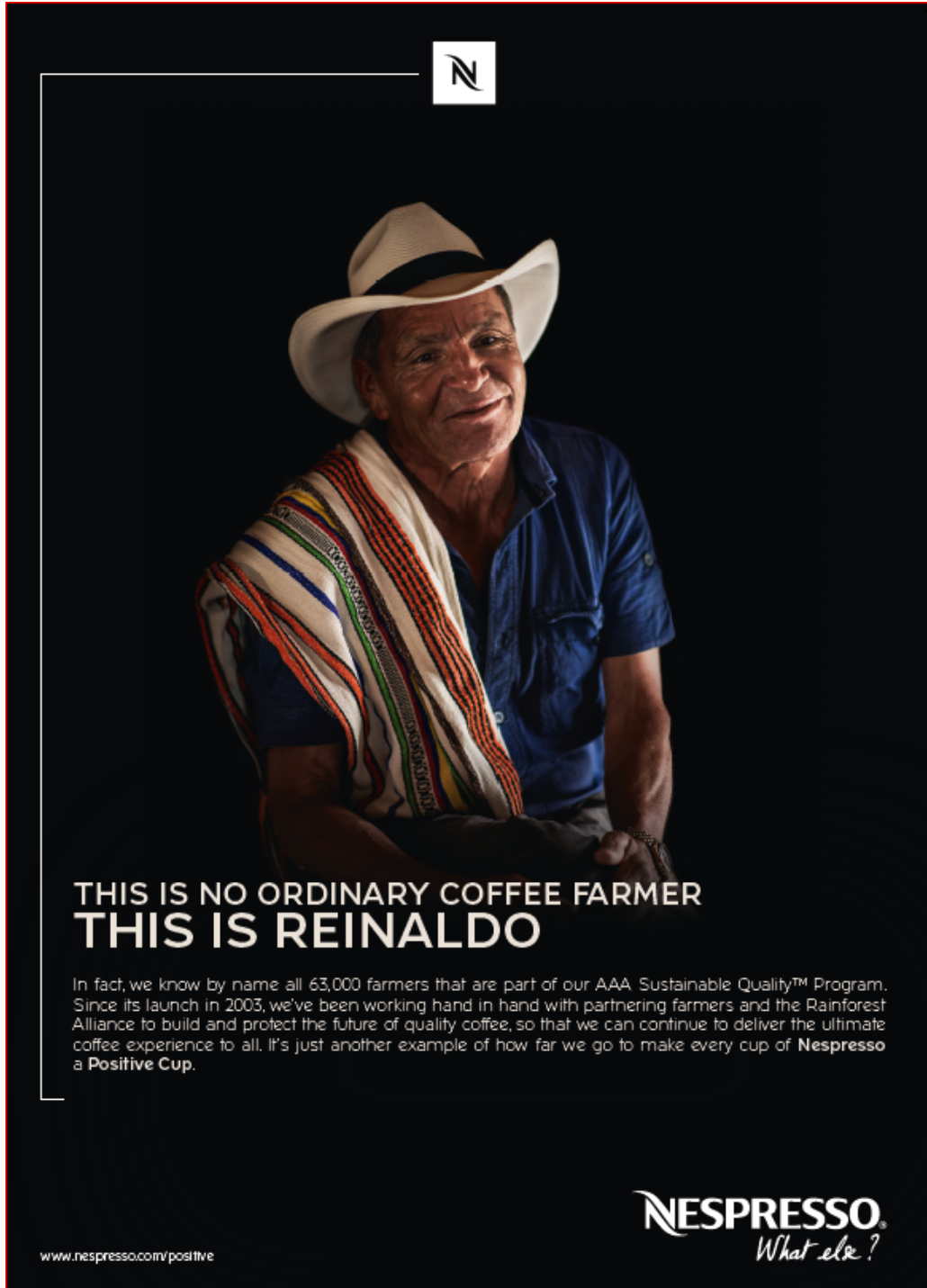
Ratios of Archetypes and their coffee expenditures (including out-of-home)

	Archetype	% of consumers	% of coffee spend
1	Elevators	15%	20%
2	Mindful	20%	13%
3	Unconventional	16%	21%
4	Value Seekers	14%	12%
5	Experiential	18%	20%
6	Settled	17%	14%

Source: Company information from Kantar Consumer Archetypes report commissioned by Nespresso

Exhibit 13: Examples of past and recent sustainability print ads

Cópia autorizada para uso exclusivo no International Week AESE-SORBONNE 2026 (2026-04-21)



Year: 2015

Exhibit 13 (continued)

N

**IT'S TIME TO THINK
 OUTSIDE THE CUP**

**TO PROTECT
 WHAT'S INSIDE IT**

Climate change threatens coffee and communities who grow it. That's why we've been committed to sustainable farming since 2003. It's now time to go further, with a global shift to regenerative agriculture. This is how we protect the precious coffee we love.

NESPRESSO
 PROFESSIONAL

Certified
B
 RAINFOREST ALLIANCE
 Corporation

Year: 2022

Cópia autorizada para uso exclusivo no International Week AESE-SORBONNE 2026 (2026-04-21)

Exhibit 13: (continued)



RE-RE-RE-RE-RECYCLE.

Nespresso capsules are recyclable*.
 Aluminium capsules collected by Nespresso are sent for recycling.

Certified

 Corporation

NESPRESSO

*For more information about recycling your Nespresso capsules visit www.nespresso.com.

Year: 2022

Source: Company information

APPENDIX: THE GLOBAL COFFEE MARKET²²

The two main categories of the CHF 390 billion global coffee market were *out-of-home* (coffee sales in cafés, bakeries, hotels, restaurants, workplaces, etc.) and *retail* (coffee sales through retail outlets as well as direct to consumers, mostly for home consumption).

Out-of-home

Out-of-home (OOH) sales of CHF 298 billion constituted 76% of the value of the global coffee market, but only 34% of the total cups consumed. The high value of this category reflected the services, often personalized, offered in coffee shops and restaurants. Growth in OOH consumption had averaged 5.8% per year between 2015 and 2019. Coffee shop chains accounted for 40% of the growth in this category, with restaurants accounting for 21% and workplaces for 11%. With more than 32,000 stores worldwide, Starbucks was the largest global player in coffee shops.

Retail

Retail coffee sales of CHF 92 billion were 24% of value and 66% of cups consumed, primarily at home. Since 2015, retail coffee growth had averaged 2.7% per year, except for the years 2020 and 2021 when sales grew faster due to Covid restrictions and increased home consumption. The sub-category of premium and super-premium quality coffee accounted for CHF 27 billion, or 29% of the total retail, reflecting a trend towards *premiumization* of consumption. Portioned coffee accounted for 40% of the growth in this category, with ready to drink (RTD) accounting for 26% of growth and soluble coffee for 24%.

Portioned coffee

Global portioned coffee sales in 2021 were CHF 20.3 billion – or 22% of the retail category. The top seven markets – the US, France, Germany, Italy, Spain, Canada and Switzerland – accounted for 75% of global sales, which had grown 5.8% per year between 2015 and 2019, more than double that of the overall retail category. The category growth rate accelerated significantly during the years 2020-21 due to increased home consumption at the height of the Covid pandemic. Growth declined from its peaks in 2022.

Capsules compatible with Nespresso's Original Line machines accounted for a large share of portioned category sales. Nespresso's strongest competitor for Original Line compatible capsules in Western Europe was the Netherland-headquartered JDE Peet's. The Italian brands Lavazza and Illy also had a strong presence in retail channels in Western Europe. In addition, there were numerous country-specific brands and private labels in food chains. Competition from compatible capsules for the Nespresso's Original Line was expected to spread beyond Western Europe to North America, Asia, and Latin America as the number of Nespresso Original line consumers in these regions increased.

²² Sources: Euromonitor; Nestlé presentation to analysts, November 2022; authors' estimates.

Key players

Nestlé

Nestlé was the largest player in the retail market with 2021 coffee sales of CHF 22.4 billion. Its Nescafé brand was the global leader in soluble coffee across both emerging and developed markets. Nespresso was the top player in portioned coffee mostly in developed countries, followed by Nescafé Dolce Gusto sold through retail channels.²³ The company aimed to increase its presence in the ready-to-drink and out-of-home categories.

JDE Peet's

JDE Peet's was the second largest player in retail with coffee sales of CHF 7 billion. Western Europe was the company's most important region. Key brands included Peet's Coffee, Jacobs, L'Or (Nespresso compatible), and its proprietary Senseo and Tassimo portioned coffee systems. The company's focus was on coffee beans and portioned coffee, in which L'Or held a significant share in its sales. JDP had a presence in out-of-home through Peet's Coffee, which had over 300 coffee shops in the US and about 60 in China.

Keurig Dr Pepper

Keurig, with its K-Cup system, was the market leader for portion coffee systems in North America. Its total coffee sales were estimated at CHF 4.2 billion. It had lost share to compatibles since 2012, when its patent on the K-Cup system expired. Observing the growth of Nespresso in the US, Keurig was premiumizing its offers in both coffee and machines.

Lavazza

Family-owned Lavazza was the third largest player in retail coffee, with total sales of CHF 2.2 billion. The company focused on premium coffee and had a strong presence in consumer foodservice and office vending machines. Its core market was Western Europe. The company launched a new range of RTD coffee in 2020 with PepsiCo UK. It sold Nespresso-compatible capsules and was expanding internationally through acquisitions.

Illy

A highly regarded premium-priced coffee brand, also family-owned, Illy was widely present in Western Europe and increasingly in the US. Its total coffee sales were estimated at CHF 500 million. It retailed packaged ground coffee as well as machines for coffee preparation. Illy had its own portioned coffee machines and capsules in addition to aluminum capsules compatible with Nespresso machines. The company operated a chain of over 160 Illy Caffès across 34 countries globally and retailed ready-to-drink cold coffee in collaboration with Coca-Cola.

²³ Nescafé's Dolce Gusto system, introduced in 2006, was a proprietary coffee-making system capable of making a variety of mostly milk-based beverages using its own coffee and milk capsules. The system was mass-marketed through retailers by Nestlé. Its sales in 2020 were estimated at slightly over CHF 1 billion.