

Read the questions carefully and justify all your answer.
You cannot use any class or personal materials.

1.

Nespresso was created in 1986 as a subsidiary of the Swiss group Nestlé. It was initially supplier to the coffee machine market but it was only after its repositioning to the high-end segment of the consumer market that Nespresso became a global success. Nespresso turnover totals were close to \$3 billion in 2014 and it had more than 300 boutiques in 60 countries across the world.

The coffee market is growing specially the single-serve systems, like Nespresso. Customers appreciate the convenience and they can brew exactly one cup of high quality coffee without any hassle.

The success of the brand has been due to a unique positioning in the coffee market, especially its choice of placing itself on the high-end market. The Nespresso system is based on several fundamental criteria: practically designed coffee machines, high-quality coffee, excellent service, and strong and original communication. With this high-end and unique positioning, the company reaches profitability levels that are only recorded in the luxury industry.

The club and boutique concept communicate an image of exclusivity and specialness. This is successfully supported by the other marketing activities of Nespresso which convey premium quality and luxury to all customers touch points along the value chain from product representation through sales to customers service. The high price points of the system's components as well as the exclusive B2B partners also support the notion that Nespresso is a premium product.

Nevertheless, Nespresso is priced in such a way as not to exceed the threshold of affordability and thus constitute a luxury item everybody can afford, i.e. the brand is 'selective, yet inviting'. Customers seem to be willing to pay Nespresso coffee higher prices because of the unique combination of Nespresso's business model, marketing, and branding.

Earlier, before the launch of competitors' capsules, a customer who bought a Nespresso machine was obligated to purchase the Nespresso brand capsules. The strategy was efficient because the capsules represented 92 percent of the brand's turnover as compared to a meager 4 percent for espresso machines. Since 2010, they have adapted to receiving capsules from competitors.

While all its competitors sell in retail stores, Nespresso distributes its products only from a distance—through the Internet and mobile devices, or in one-of-a-kind boutiques.

Customers who buy Nespresso machines automatically become members of the brand club, and more than 8 million people belong to this club. They benefit from exclusive offers and limited series, are informed of innovations and creations, and receive a magazine subscription. Nespresso cultivates a sense of belonging to a privileged community that reinforces the brand's positioning.

In addition to selling on the Internet, mobile devices, and in boutiques, other means of distribution have been developed. For example, fully automated distributors called Nespresso Cube have colored walls made of cases of capsules on display with an interactive interface. These cubes are located in prominent European airports, and represent innovative selling and communication media for the brand.

In order to reinforce its high-end positioning, the brand also associates itself with well-established restaurants that are known to focus on authenticity and quality. For example, this high-range machinery equips at least 25 percent of the French restaurants. The chefs, as customer influencers, are also regularly invited to taste new coffees.

Nespresso works with the advertising agency McCann World to create the “ultimate coffee experience” in all its dimensions of communication. The communication strategy of Nespresso strongly contributes to the success of the brand. In Europe, since 2006, actor George Clooney and the famous slogan “what else?” have been synonymous with the brand. Clooney embodies the values and the image of the brand in terms of elegance and prestige. In the U.S., Penelope Cruz is the brand ambassador.

The brand’s unique and original positioning has allowed it so far to keep the competition—Tassimo (Mondelez), Senseo (Sara Lee), and in particular the Nespresso compatible capsules (today more than 50 brands offer capsules that fit in the Nespresso machines)—at bay. Some competitors tried to use an ecological argument to discredit the brand, saying that Nespresso capsules were very polluting. This led the company to make sustainability a top priority. They undertake sustainable practices in the coffee growing regions to be able to provide customers with high quality coffee. Also, the company develop its own circuit of recovery of used capsules, among other sustainable initiatives.

Recently, Nespresso has been facing some serious competition and is at risk of losing market share to Jacobs Douwe Egberts, formed from the strategic merge of the Dutch Douwe Egberts and the American Mondelez. Jacobs Douwe Egberts is the current number one coffee company in the world with a turnover of over \$4 billion. In order to reinforce its position in the coffee market and reclaim its spot as the market leader, the Nestlé Group should aim to strengthen the high-end positioning of Nespresso.



- a) Based on information contained in the text and your knowledge of marketing segmentation, characterize the segment(s) targeted by Nespresso. [4]
- b) The Nespresso brand is very valuable. What are the sources of Nespresso brand equity? [4,5]
- c) Based on the previous questions do you think that the brand positioning of Nespresso would enable it to resist new competition from companies such as Jacobs Douwe Egberts. In your opinion what are the main challenges faced by the brand in the future. [3]
- d) Characterize Nespresso distribution strategy. What are the advantages and challenges of this distribution strategy for Nespresso? [4]
- e) Nespresso communication strategy is was one of the reasons for the company success. Characterize the following elements of the communication strategy: objectives, communication message, channels, and communications mix. [4,5]