

Rules:

Your answer must fit on 2 pages max (font size 11pt min). English.

You must create teams of 3 (9 teams of 3 would be perfect).

Submit your deliverables by April 8th 23:42 CET.

5 teams will have 5 minutes each to present their answers in French or English at the beginning of the next course.

No ChatGPT allowed.

Questions:

1. Describe, in simple terms, what is the unique innovation behind Nespresso's concept
2. List all types of intellectual property rights used by Nespresso, with one example of how Nespresso has been using it.
3. Which intellectual property right seems to have been the most important in Nespresso's success? Explain why.
4. Please cite at least two other companies using similar Nespresso business model patterns.
5. Describe in one paragraph how this concept of combining multiple intellectual property rights may be applied to a solution in the quantum ecosystem (create a fictional quantum service that would rely on the same business model).

Nespresso



Andrea Moriggi

A simple but revolutionary idea started it all for the Nespresso brand: to let anyone be the creator of the perfect cup of coffee — exactly like a skilled barista¹. Since its inception in 1986, Nespresso has been a trailblazer in the coffee industry and has redefined the coffee culture for millions worldwide.

Over the years, Nespresso has gone from being the revolutionary in the field to being the point of reference in the portioned coffee segment due to its dedication to delivering an unrivalled coffee experience to consumers. This dedication to quality is the cornerstone upon which the Nespresso company was created and has led to the brand's continued growth for the past 30 years.

Nespresso's story, however, has been rich with lots of lawsuits and litigation related to its intellectual property. Since the core patents around the pods and capsules have started to expire, a new market of cheaper competing products has been threading its way through this highly-profitable business.

Company Background

Nespresso headquarters is located in Lausanne, Switzerland. All the three-worldwide production centres are in Switzerland, in the towns of Avenches, Orbe and Romont.

The company sells its pods and machines in 74 countries worldwide, with a global network of over 450 boutiques in 58 countries. Over 50% of the 13,000 employees are in direct contact with consumers, or Club Members², while the R&D, design, coffee and CRM functions are all located in the Lausanne headquarters.

Nespresso broke even for the first time in 1995, and in 2017, the company's annual sales were estimated to be \$4.7bn. Although it took several years before reaching a financial break-even, Nespresso quickly became one of Nestlé's fastest-growing business units, helped by the fact that

¹ <https://www.nestle-nespresso.com/about-us/our-history>

² A customer becomes a Club Member as soon as an order is placed.

in the first years of operations, it had no real competitors and that the worldwide coffee revenues have been constantly increasing (see exhibit 1 and 2).

This situation, however, changed quickly after 2006. From 2006 to 2010 Nespresso had almost tripled its sales, but the meteoric growth of the company and its dominance of the premium single-serve coffee market started to be challenged aggressively by some competitors. Nespresso was able to keep its competitive advantage mostly because of its new technology and innovative ideas, a strong brand value associated with a luxury lifestyle, its unique direct marketing channel and premium stores, as well as top varieties of coffee selected through a highly competitive process.

Genesis, Business Plan & Strategy

Business Plan & Strategy

Nespresso strategy was to create a niche market and lock-in customers in a superlative experience. This long-term objective has proven more than successful. It has been based on the main focus of producing and selling the highest quality 'Grand Cru' coffees, while building long-lasting relationship with consumers and operating a sustainable business³.

Vision

Nestlé executives took their inspiration from a trip to Italy, where they came to observe the "effort and skill" with which the baristas prepared their wares. *"It took a lot of time to get it right. We wanted to replicate that – a way of guaranteeing the best quality coffee in the shortest possible time"*, declared Alfred Yoakim, Nespresso research and development director⁴.

Luigi Bezzera's intuition – the first man to patent an espresso coffee machine back in 1901 – was the incentive for Nespresso to allow customers to enjoy premium coffee with minimum effort, using specially designed machines and hermetically sealed, prefilled coffee capsules⁵. It is thanks to this that the company broke the boundaries between coffee producers and machines.

The first pod project on which the Nestlé R&D team started to work, is dated back in the 1970s. The vision was to allow anyone, anywhere — be either it at home or at work — to make the perfect cup of espresso — just like one they could get in the best Italian coffee bars. It is this R&D that gave them first-mover advantage.

When Nestlé founded Nespresso SA in 1986 after working for more than a decade on these pods project, the company had a staff of just five employees.

³ <https://www.nestle-nespresso.com/about-us/strategy>

⁴ The Cult of Nespresso: could it really be the best cup of coffee money can buy? Available at: <https://www.independent.co.uk/life-style/food-and-drink/features/the-cult-of-nespresso-could-it-really-be-the-best-cup-of-coffee-money-can-buy-395944.html>

⁵ The Nespresso Case, available at: https://www.kellogg.northwestern.edu/Faculty/Conley/htm/VA_Nespresso.pdf

As of March 2018, the Nestlé group had more than 4,500 people in Food and Beverages R&D, and the company is increasingly operating in an Open Innovation mode to enhance the internal R&D capabilities by tapping into external resources⁶.

In order to keep innovating at a fast pace, Nestlé has created a network of approximately 300 external research institutions that allows its R&D to work regularly with scientists and technologists in universities, research establishments and private industry all over the world. Thanks to these partnerships, the company benefits from identifying new opportunities and integrating them into its business, while its partners benefit from the access to specialist knowledge and a tradition of best-in-class technology⁷.

Turnover

The number of Nespresso employees have also been growing quickly and has now reached more than 13,000 people. The company has spread its presence in 76 countries, but when it started there were only three markets: Switzerland, Italy and Japan. This incredible growth has led the company to be the unquestioned leader of the pods market for both machines and pods for many years.

Approach

Nespresso sought to control the whole supply chain, from sourcing of coffee beans to the sale of the packaged coffee. Coffee machines were manufactured and co-branded in cooperation with machine partners, and incorporated with the patented extraction and brewing units, all invented and owned by Nespresso. Even this strategy proven rewarding: in 2003, Nespresso created the AAA Sustainable Quality Program supply chain model and in 2012, it won the Logistic Award for best Web Shop of the Year. Currently, more than 50% of the total sales comes from the internet channel.

First steps in the market & international expansion

The first single-serve Nespresso coffee machine is dated back in 1986. Growth took off in the 1990s in Europe, and only ten years later, Nespresso arrived in the US where it has opened boutiques in locations such as New York's Madison Avenue and Newport Beach in Southern California. In 2014, the company presented to the public a new coffee machine called VertuoLine⁸ that, besides making regular espresso cups, brews coffee in larger sizes (250ml). This new machine which has been defined as a "patent technological breakthrough"⁹, allowed the company to file new patents in 2014. Barcode scanning, CentrifusionTM brewing¹⁰, and

⁶ Typically, however, R&D spending represents between 0.5 and 2% of the annual budget in the food industry. See: H. TRAITLER – B. COLEMAN – A. BURBINGE, *Food Industry R&D: A New Approach*, John Wiley & Sons, 2016. Available at: https://is.gd/competition_nespresso

⁷ *Ibid.*

⁸ M. GUNTHER - *The good, the bad and the ugly: sustainability at Nespresso*, available at: <https://www.theguardian.com/sustainable-business/2015/may/27/nespresso-sustainability-transparency-recycling-coffee-pods-values-aluminum>

⁹ Nespresso Vertuoline: a gamechanger ambition, Nestlé, 2014, available at: <https://www.nestle.com/asset-library/documents/investors/nis-2014-boston/nespresso.pdf>

¹⁰ With Centrifusion the machine combines water infusion and centrifugal action, spinning the pod up to 7000rpms. New pods compatible with VirtuoLine machines have been patented. See: <https://patentimages.storage.googleapis.com/0f/65/4e/a3f801d608ee4e/USD734665.pdf>

capsule recognition are all characteristics introduced by VertuoLine, that make the machine able to adjust the extraction parameters to deliver an unmatched quality of coffee.

Protecting the inventions

By patenting the machines and the capsules, the Nespresso company ensured a lock-in and customers loyalty. Because of this, they were able to sell the machines at an affordable cost, recouping in the sale of capsules.

The Nespresso brand strength is based on the product's underlying inventions and its extensive patent portfolio. The protection of its proprietary aspects that facilitate a delightful and convenient user experience has always been a focus of the company¹¹. While Nespresso was enjoying its privileged position on the market, it executed an extensive marketing campaign to establish its brand as a premium source of coffee in the consumers' mind¹².

The company, has always been determined to protect not only its patent portfolio, but more widely, all its intellectual property rights, even through court litigation, if necessary. Nestlé views intellectual property protection more broadly than just patents. *"We include the use of trade secrets, trademarks, designs, publications, and know-how to gain an advantage over competitors"* it is stated in a recent corporate document titled *Innovating the future*. Recently, the use of George Clooney's look-alike from an Israeli competitor brought the companies to court, but led to a ruling in favour of the defendant. Nespresso lawsuits, in fact, did not always prove successful through the years.

Creating a new market

In 1999, an innovative system is launched under the name of "Nespresso Professional", with dedicated machines and different varieties of coffee packaged in pods, projected for the premium food sector and small workplaces¹³. A broader range of 'Grand Cru' is introduced in 2001, and in the following decade the company continued to launch new machines. Nespresso prove successful in co-brandings its brewing machines through strategic partnerships with major coffee machine producers such as Bosch/Siemens and DeLonghi¹⁴.

Shift in profiling

Nespresso founded the Nespresso Club, opened fancy Nespresso Boutiques worldwide and launched advertisement campaigns in Europe with the Hollywood star George Clooney. By doing so, the company succeeded in shifting the consumers' attention from the patented benefit of the capsule to the emotional benefit of the Nespresso brand, moving the functional value to the trademark¹⁵. As the former CEO of Nespresso and today's CEO Nestlé Germany, Gerhard Berssenbrügge, puts the idea of value transference into his own words: *"We wanted to shift our consumers' attitude from 'I'm buying Nespresso because it delivers functional benefits' to 'I'm buying this specific brand simply because I love it'"*¹⁶.

¹¹ The Nespresso Case, see supra note 5

¹² *Ibid.*

¹³ <https://www.nestle-nespresso.com/about-us/our-history/phase2>

¹⁴ *Ibid.*

¹⁵ The Nespresso Case, see supra note 8

¹⁶ *Ibid.*

The hot drinks coffee Market and Nespresso's competitors

At the time Nespresso broke onto the scene in 1986, the coffee market was already being dominated by traditional players: coffee producers and distributors on one side and machine manufacturers on the other¹⁷. Competition was fierce in the traditional market and Nespresso contributed to create a third market, the market of coffee pods (see exhibit 1 and 3). Even if coffee made from pods is more expensive than traditional options, it has attracted consumers in mass and brought healthy profits to pods producers thanks to its high quality and the fact that it takes almost no time to prepare.

Initially, Nespresso provided only four coffee varieties on the market: *Capriccio*, *Così*, *Decaffeinato* and *Bolero* (now known as *Volluto*). Margins were not too encouraging. Although the quality of coffee machines improved over time, brewing high quality tasting coffee at home remained time-consuming. If Nespresso was suffering only the competition of Monodor in 1991, the competitors kept increasing over the course of the years: similar technologies and similar pods were developed and sold by 15 competitors in 2004, about 50 in 2010 and approximately 100 today.

Recently, a number of trends have impacted the Hot Drinks market. To give an example, disposable coffee pods (later followed by tea and cocoa capsules) represented a major change in the way people consume their hot beverages. The coffee segment alone accounted for 59% of the worldwide hot drinks revenue and 65% of volume sales in 2017.

An increasing concern for social and environmental responsibility, coupled with fears for consumer health and safety as well as price pressure are driving a shift towards greater levels of company transparency. For this reason, it is not uncommon to see smaller-scale brands touting fair trade and responsible sourcing as part of their image. On the other hand, large, international brands often invest their resources in sustainability. During the last ten years, the third wave of coffee shaping international markets consisted mainly of sustainability concepts such as a single origin espresso or direct-trade coffee. Today, however, the fourth wave depends on innovation. To name an example, nitrogen-infused coffee, which is a cold brew resembling beer in texture, has become so popular in the USA, that Starbucks already includes it in their product range. Nespresso has reacted to these trends by adopting a collaborative approach, rather than aggressive. In 2018, Nestlé obtained the rights to market, sell, and distribute Starbucks®, Seattle's Best Coffee®, Starbucks Reserve®, Teavana™, Starbucks VIA® and Torrefazione Italia® packaged coffee. As part of the agreement, Nestlé paid Starbucks US\$7.15 billion. This alliance combines the affinity and strengths of the Starbucks brand with the global reach of Nestlé and its recognized brands, creating growth opportunities in the established markets and unlocking an even greater expansion in international markets¹⁸. *"This transaction is a significant step for our coffee business, Nestlé's largest high-growth category. With Starbucks, Nescafé and*

¹⁷ *Ibid.*

¹⁸ The Starbucks press release is available at: <https://investor.starbucks.com/press-releases/financial-releases/press-release-details/2018/Starbucks-and-Nestle-Form-Global-Coffee-Alliance-to-Elevate-and-Expand-Consumer-Packaged-Goods-and-Foodservice-Categories-Around-the-World/default.aspx>

Nespresso we bring together three iconic brands in the world of coffee”, declared Nestlé’s CEO, Mark Schneider¹⁹.

Ethical Sourcing: Corporate Social Responsibility or Business Plan?

Nespresso has always demonstrated a particular sensibility for the environment. In 1991, the first Nespresso capsule recycling program is introduced in Switzerland, and has now led to the establishing of a very efficient collection system in 36 countries worldwide, including over 14,000 dedicated collection points and over 88,000 UPS drop off locations. The company decided to use aluminium because it is the best material available today to protect the coffee flavour and its aroma. Moreover, it can also be endlessly recycled because when melted, its properties remain intact. The aim of Nespresso is to reach a 100% collection capacity by 2020.

Nespresso has also reinvested part of its earnings in undeveloped countries such as South Sudan, with the help of the anti-poverty NGO Technoserve²⁰. The country’s economy is heavily dependent on foreign aid, oil and coffee, and coffee has become its first major agricultural export²¹. *“It’s very interesting for me, because South Sudan is the place where coffee began — it’s the cradle of coffee”* Nespresso CEO Jean-Marc Duvoisin said²². George Clooney, who is the face of Nespresso, suggested that the company continues to work in South Sudan given that *“Coffee production helps to pacify regions. That’s basically because you have families who can produce on small lands, and they have stable income”*²³.

Nespresso has planned to spend US\$2.7m in South Sudan, in addition to the US\$800.000 already invested²⁴. In conjunction with TechnoServe, it helped organise three coffee cooperatives, built three wet mills to process coffee and last year, exported 10 tons of coffee²⁵. By the year 2020 it has a goal of reaching 8,000 farmers²⁶.

On a much broader scale, since 2013, Nespresso has introduced a global program for coffee called AAA Sustainable Quality in collaboration with The Rainforest Alliance. Under the program, around 63,000 farmers have been certified, about 80% of those supplying Nespresso, according to its website. They are paid 30%-40% above the standard market price for coffee.

“It’s a rigorous and comprehensive program, with real investment in the farmers” stated Tensie Whelan, the president of the Rainforest Alliance. *“They are able to pay the producers well and be there for the long term. This is really what we should be doing through all of our value chains”*²⁷.

¹⁹ Why Nestle Is Paying \$7.2 Billion to Sell Starbucks Coffee, available at: <http://fortune.com/2018/05/07/nestle-starbucks-alliance-coffee/>

²⁰ M. GUNTHER - *The good, the bad and the ugly: sustainability at Nespresso*, see note 8

²¹ Reviving high quality coffee production in South Sudan, available at: <https://www.nestle-nespresso.com/newsandfeatures/reviving-high-quality-coffee-production-in-south-sudan>

²² M. GUNTHER - *The good, the bad and the ugly: sustainability at Nespresso*, see supra note n. 8

²³ *Ibid.*

²⁴ *Ibid.*

²⁵ *Ibid.*

²⁶ Reviving high quality coffee production in South Sudan, see supra note 19

²⁷ M. GUNTHER - *The good, the bad and the ugly: sustainability at Nespresso*, see supra note n. 8

The role of Intellectual Property Rights in Nespresso's Success

Nespresso used the intellectual property system to protect Nestlé's initial investment and inventions around the business model (i.e. specially designed machines, which incorporate patented extraction and brewing units, as well as pods) and then to protect itself from competition, but also competition for pods. Moreover, Nespresso owns all patents and related intellectual property on its machines and licenses or outsources the manufacturing of coffee machines to third-party producers under "at cost" technology licensing²⁸. No one has been able to provide a similar offering.

Over the years, patents have provided Nespresso capsules with a lot of protection. Patents development had encroached in the last 10 years: in 2012 Nespresso reached a portfolio of over 2.100 patents, from 1.700 in 2010²⁹ (+~25%) (see exhibit 4).

In 2012, Nestlé won a case against rivals, including the American food group Sara Lee. The EPO upheld a Nestlé patent issued in 2010 related to the way Nespresso capsules fit its machines. The decision, however, was appealed by six competitors³⁰, until the EPO revoked the patent in 2013³¹.

2012 was a cornerstone year for Nespresso's intellectual property. Several important patents started to expire, leaving unique opportunities for competitors to create their own compatible capsules³². As the patents expired, Nespresso sought to adopt strategies to extend the effect of the patents.

In 2013, a UK High Court ruling³³ dealt a blow to the system of patents in place to protect Nestlé's Nespresso machine and capsule coffee systems. The ruling essentially allowed customers the option of using competitor's capsules made by Dualit, the British manufacturer, known for its retro toasters, in their Nespresso machines.

"The protection of our intellectual property is an important component of our business strategy" stated Daniel Weston, Nestlé Nespresso general counsel³⁴. Weston included that the company is no stranger to competition. But he added that competition was nothing new. *"In fact, Nespresso*

²⁸ How should Nespresso capitalize on the opportunities of the circular economy to build a premium proposition for aspirational consumers?, available at: <https://is.gd/nespressocaseistud>

²⁹ Nespresso and Rivals Vie for Dominance in Coffee War, available at: <https://www.nytimes.com/2010/08/21/business/global/21coffee.html>, 20.06.2010

³⁰ DEMB Holding B.V., Distribution Casino France, Ethical Coffee Company SA, Ethical Coffee Company SA, Beyers Koffie N.V., Casa del Caffè Vergnano S.p.A.

³¹ EPO decision T 1674/12 of 10 October 2013, available at: <http://www.epo.org/law-practice/case-law-appeals/recent/t121674fu1.html>

³² C. DE KEERSMAKER, *The Nespresso capsules: end of trademark protection for Nestlé*, available at: <https://koan.law/brussels/en/news/newsflash-the-nespresso-capsules-end-of-trademark-protection-for-nestle->

³³ Nestec S.A., Nestlé Nespresso S.A. and others v. Dualit and others, High Court of Justice, Patents Court, Justice Arnold, London, UK, 22 April 2013, Case No. [2013] EWHC 923 (Pat)

³⁴ Nespresso's bitter taste of defeat, available at: <https://www.ft.com/content/406f8ad0-acfa-11e2-b27f-00144feabdc0>

is today competing against approximately 100 portioned coffee offerings in the market globally, including 11 in the UK alone” (See exhibit 5).

Three-dimensional trademark

In 2001, Nespresso even tried to protect the shape of its products, applying for an international registration of the capsules as a three-dimensional trademark³⁵. This trademark, registered under No. 763699, was renewed in the Benelux in 2011 for another 10 years until July 2021 (see exhibit 6).

In 2013, a nullity proceeding was brought by Nestlé’s rival Mondelez-Kraft, against the three-dimensional trademark registration before the Court of Commerce of Brussels³⁶. Their action was founded on the premise that this trademark would consist solely of a shape which was needed to obtain a technical result (according to article 2.1.2 of the Benelux Convention on Intellectual Property)³⁷. Nestlé, however, did not appear at the introduction hearing, and the Court subsequently rendered a judgment “by default”, granting all demands of Mondelez-Kraft. Nestlé reacted by lodging an opposition procedure before the same court³⁸. On November 4, 2016, the Court reaffirmed its initial ruling and ordered the removal of Nespresso’s three-dimensional trademark from the Benelux trademarks register³⁹. In the case against Dualit⁴⁰, Nestlé was able to prove that 65% of consumers allocated a similar competitor’s capsule to Nespresso.

Competitor’s Reactions: Attempts to Break into Nespresso value chain

Nespresso and Jean Paul Gaillard

Jean Paul Gaillard was the CEO of the company from 1986 to 1998. After leaving the company, he founded the Ethical Coffee Company (ECC), and raised 50M CHF to start a production of biodegradable pods that can be used in Nespresso machines⁴¹. Nespresso responded by suing ECC. In May 2017, the European Patents Office refused for the second time a challenge brought by Nestlé against ECC capsules⁴². Then a court ruling found that the “blocking system” introduced in Nespresso machines to stop competing capsules functioning was illegal. However, despite the positive court rulings, the high level of competition from new producers had driven prices and profit-margins down: *“Everybody has started making capsules”* stated Gaillard – *“The business doesn’t make anything anymore.”*

³⁵ C. DE KEERSMAKER, see supra note 26

³⁶ SORREAU G., *Nespresso Capsules : What Else...than the End of IP Protection?* , available at: <http://pragma.international/article/nespresso-capsules-what-else-than-the-end-of-ip-protection>

³⁷ *Ibid.*

³⁸ *Ibid.*

³⁹ Decision of the Commercial Court of Brussels n. 2017/4, 4 November 2016.

⁴⁰ Nestec S.A. and others v. Dualit Limited and others [2013] EWHC 923 (pat.)

⁴¹ Nespresso Competition - Can the elitist system of Nespresso be the reason of its future demise?, available at: <https://sites.google.com/site/nespessogmx/nespresso-s-competition-landscape>

⁴² Ethical Coffee Company to bow out of capsule business, available at: http://www.swissinfo.ch/eng/pod-wars_ethical-coffee-company-to-bow-out-of-capsule-business/43313170

Nespresso and Vergnano

Vergnano, the oldest Italian coffee manufacturing company, was sued by Nespresso in 2012 for using the statement “*Capsules compatible with Nespresso machines*” in their advertising⁴³. The lawsuit was grounded on the alleged infringement and unlawful use by Vergnano of its trademark, which—according to Nestlé – constituted unfair competition and unlawful comparative advertising⁴⁴. The company retained that the reference to the Nespresso trademark intended to lead consumers to switch to Vergnano, on the implied pre-supposition that the quality of the two products was the same⁴⁵. The court decided⁴⁶ in favour of Nestlé, finding that the use of Nespresso trademark was too broad and inconsistent with the principles of fair-trade practice and required Vergnano to add into its statements information regarding the specific types of Nespresso coffee machine with which its capsules are compatible⁴⁷.

Conclusion

In exchange for its investment in innovation, Nestlé benefited from a worldwide competitive advantage for a long period due to the exclusivity offered by the patent system, enabling the company to become the success that it is today. Now that the core patents have expired and the three-dimensional trademark has been declared invalid in several other countries across Europe⁴⁸, consumers can enjoy a large variety of pods made by competitors and sold at a more convenient price in online stores and supermarkets.

The company, however, is facing a number of dilemmas and has to decide where to address its future intellectual property-related strategy, given that litigation has demonstrated not to be always the preferable way to be followed.

⁴³ International report - Trademark aspects of the coffee capsule case: Nestlé v. Vergnano, available at: <http://www.iam-media.com/reports/detail.aspx?g=a4f69e1c-2335-4371-ba22-ec7c290d998f>

⁴⁴ Available at: <http://www.iam-media.com/reports/detail.aspx?g=a4f69e1c-2335-4371-ba22-ec7c290d998f>

⁴⁵ *Ibid.*

⁴⁶ Caffè Vergnano s.p.a. v. Nestec s.a., Tribunale di Torino, Sez. IX Civ., 15 June 2012

⁴⁷ *Ibid.*

⁴⁸ Germany (DE Trademark No. 27 52 733) and Switzerland (CH Trademark No. P-486889).

Exhibits

Exhibit 1: Coffee revenues in billion US\$ and Coffee volume sales in billion kg in the US, China, Latin America and Australia. Source: Statista Consumer Market Outlook, 2018

United States

Coffee revenues in billion US\$

	unit	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	CAGR ¹ '10/'21	CAGR ¹ '16/'17
Hot Drinks total	bnUS\$	13.95	17.08	18.11	17.64	17.27	16.81	16.79	17.23	17.76	18.31	18.82	19.33	3.0%	2.7%
Coffee	bnUS\$	9.50	12.36	13.42	13.06	12.70	12.09	12.16	12.52	12.94	13.37	13.77	14.17	3.7%	2.9%
Share of total market		68.1%	72.4%	74.1%	74.1%	73.5%	71.9%	72.4%	72.6%	72.8%	73.0%	73.2%	73.3%	0.7%	0.3%

Coffee volume sales in billion kilograms

	unit	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	CAGR ¹ '10/'21	CAGR ¹ '16/'17
Hot Drinks total	bnkg	1.29	1.33	1.33	1.33	1.36	1.35	1.42	1.44	1.46	1.48	1.50	1.52	1.5%	1.2%
Coffee	bnkg	1.01	1.04	1.05	1.05	1.09	1.07	1.14	1.16	1.18	1.20	1.22	1.24	1.9%	1.5%
Share of total market		77.8%	78.3%	78.6%	78.9%	79.7%	79.4%	80.7%	80.9%	81.2%	81.5%	81.7%	81.9%	0.5%	0.3%

15 1: CAGR: Compound Annual Growth Rate/average growth rate per year
Source: Statista Consumer Market Outlook 2018

China

Coffee revenues in billion US\$

	unit	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	CAGR ¹ '10/'21	CAGR ¹ '16/'17
Hot Drinks total	bnUS\$	8.91	10.76	12.05	13.72	15.35	16.92	18.58	19.99	21.29	22.80	24.33	25.85	10.2%	7.6%
Coffee	bnUS\$	0.28	0.47	0.56	0.90	1.25	1.43	1.84	1.99	2.09	2.40	2.74	3.12	24.7%	8.0%
Share of total market		3.1%	4.4%	4.7%	6.6%	8.1%	8.4%	9.9%	9.9%	9.8%	10.5%	11.3%	12.1%	13.8%	0.4%

Coffee volume sales in billion kilograms

	unit	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	CAGR ¹ '10/'21	CAGR ¹ '16/'17
Hot Drinks total	bnkg	0.48	0.52	0.55	0.60	0.65	0.70	0.74	0.77	0.80	0.83	0.85	0.88	5.6%	4.1%
Coffee	bnkg	0.01	0.02	0.02	0.04	0.05	0.06	0.07	0.07	0.07	0.08	0.09	0.10	19.6%	4.6%
Share of total market		2.9%	4.1%	4.4%	6.3%	7.7%	8.0%	9.5%	9.5%	9.4%	10.1%	10.8%	11.6%	13.9%	0.5%

16 1: CAGR: Compound Annual Growth Rate/average growth rate per year
Source: Statista Consumer Market Outlook 2018

Latin America²

Coffee revenues in billion US\$

	unit	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	CAGR ¹ '10/'21	CAGR ¹ '16/'17
Hot Drinks total	bnUS\$	6.85	7.59	8.23	8.68	9.30	10.50	11.37	12.00	12.73	13.52	14.35	15.20	7.5%	5.5%
Coffee	bnUS\$	6.44	7.13	7.73	8.12	8.65	9.69	10.41	10.95	11.59	12.29	13.02	13.77	7.2%	5.2%
Share of total market		94.0%	93.9%	93.9%	93.6%	93.0%	92.3%	91.6%	91.3%	91.1%	90.9%	90.7%	90.6%	-0.4%	-0.3%

Coffee volume sales in billion kilograms

	unit	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	CAGR ¹ '10/'21	CAGR ¹ '16/'17
Hot Drinks total	bnkg	1.02	1.06	1.10	1.10	1.11	1.13	1.14	1.14	1.15	1.16	1.17	1.18	1.3%	0.5%
Coffee	bnkg	0.97	1.00	1.04	1.04	1.05	1.06	1.06	1.07	1.08	1.08	1.09	1.10	1.2%	0.3%
Share of total market		94.8%	94.7%	94.6%	94.2%	94.1%	93.9%	93.8%	93.6%	93.5%	93.4%	93.3%	93.2%	-0.2%	-0.2%

1: CAGR: Compound Annual Growth Rate/average growth rate per year

2: Latin America includes only Mexico, Brazil and Argentina

Source: [Statista Consumer Market Outlook](#) 2018

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Australia

Coffee revenues in billion US\$

	unit	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	CAGR ¹ '10/'21	CAGR ¹ '16/'17
Hot Drinks total	bnUS\$	1.53	1.65	1.78	1.86	1.88	2.03	2.06	2.04	2.06	2.12	2.17	2.23	3.5%	-0.9%
Coffee	bnUS\$	1.01	1.10	1.25	1.31	1.30	1.44	1.46	1.43	1.44	1.48	1.53	1.57	4.1%	-2.1%
Share of total market		65.9%	67.0%	70.2%	70.1%	69.4%	71.2%	71.2%	70.3%	70.0%	70.1%	70.2%	70.3%	0.6%	-1.3%

Coffee volume sales in billion kilograms

	unit	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	CAGR ¹ '10/'21	CAGR ¹ '16/'17
Hot Drinks total	bnkg	0.06	0.06	0.07	0.07	0.07	0.07	0.08	0.07	0.08	0.08	0.08	0.08	2.8%	-1.0%
Coffee	bnkg	0.03	0.04	0.04	0.04	0.04	0.05	0.05	0.05	0.05	0.05	0.05	0.05	3.3%	-2.5%
Share of total market		58.8%	59.8%	62.6%	62.7%	61.7%	63.6%	63.6%	62.6%	62.2%	62.3%	62.3%	62.4%	0.6%	-1.6%

1: CAGR: Compound Annual Growth Rate/average growth rate per year

Source: [Statista Consumer Market Outlook](#) 2018

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Exhibit 2: Coffee segment sales volume and value evolution. Source: Nielsen, 2015

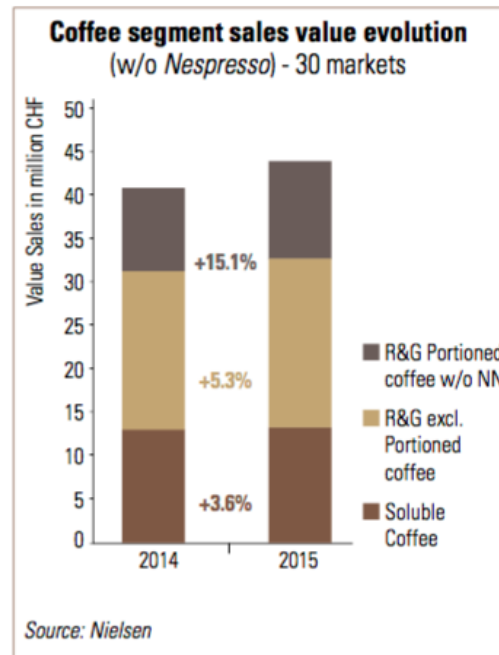
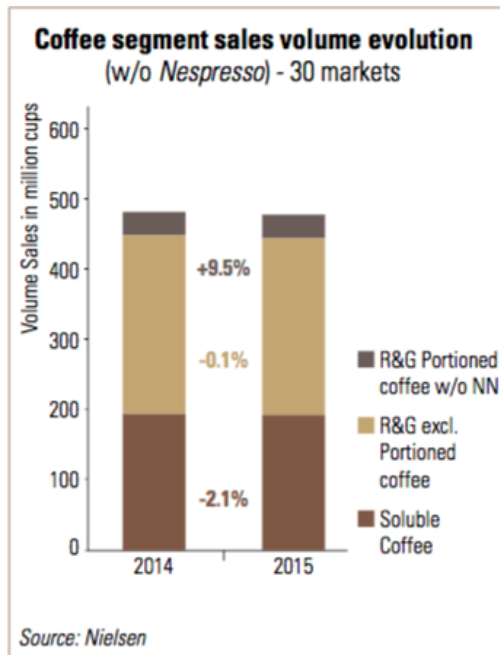


Exhibit 3: Soft drinks brand value in million US\$. Source: Milward Brown Kantar, 2018

Most valuable soft drink brands:

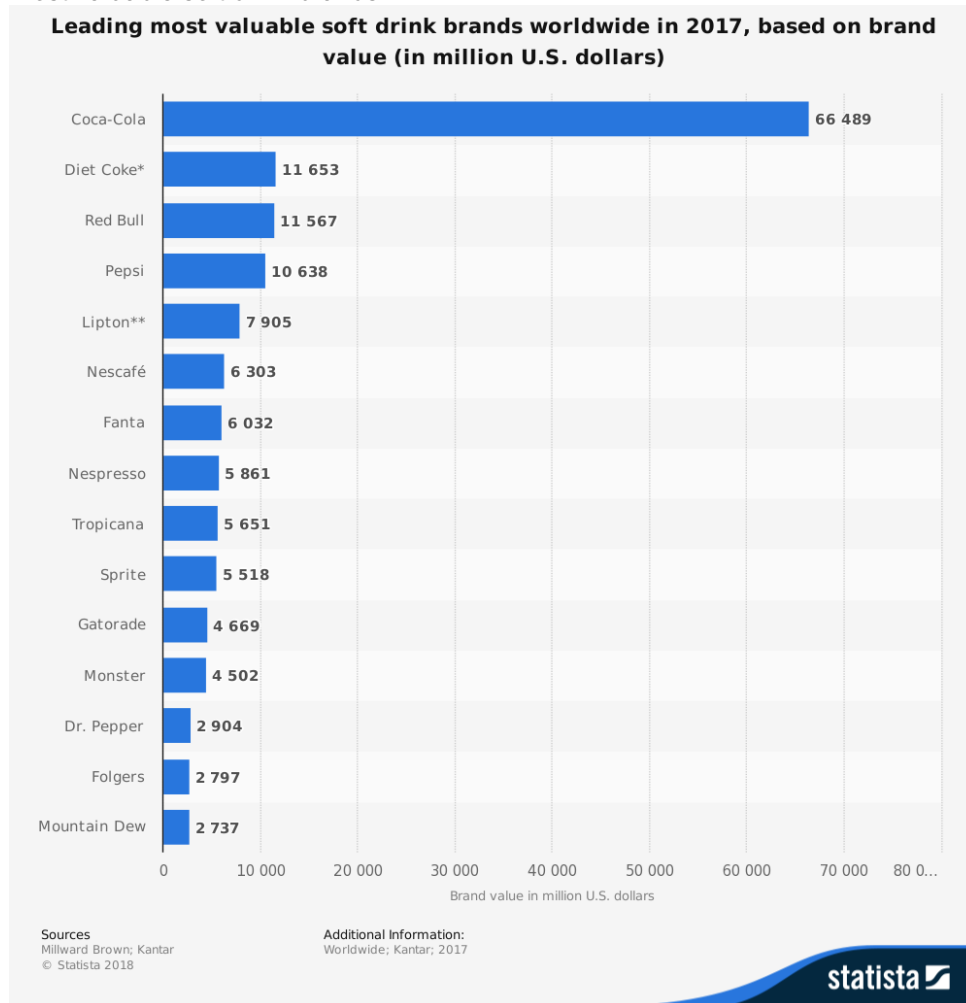


Exhibit 4: Chronology of key facts related to Nespresso patent portfolio.

- **1976:** Eric Favre filed the first Nestlé patent related to a coffee machine (CH605293A5 and US4136202A).
- **1986:** Nestlé set up Nespresso S.A.
- **1991:** 126 patents registered worldwide
- **1996:** First patent application for Nespresso's process of brewing espresso from capsules containing ground coffee is filed.
- **2000:** 366 patents registered worldwide
- **2003:** 513 patents registered worldwide
- **2007:** 948 patents registered worldwide
- **2010:** 1700 patents registered worldwide
- **2011:** 2125 patents registered worldwide
- **2012:** Key patents start to expire, leaving grounds to competitors

Exhibit 5:

Nespresso capsule competitors over the years, in *The Nespresso Winning Formula. Continuous innovation and highest quality as cornerstones for sustainable growth. 2010* (See: Sources)

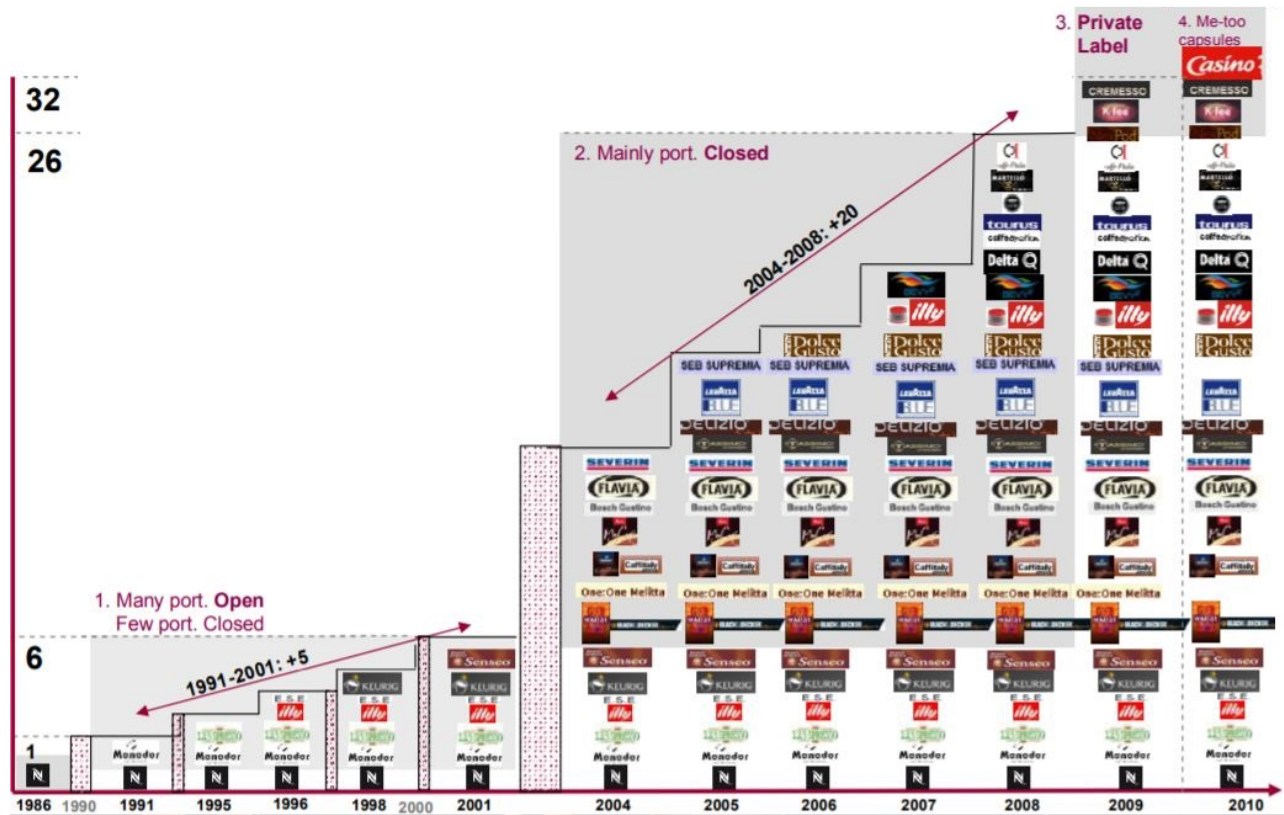
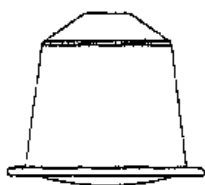
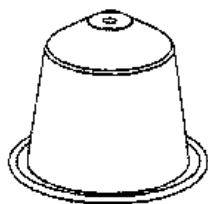
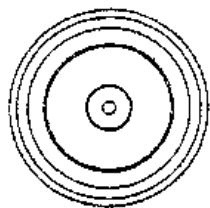


Exhibit 6: Details of the three-dimensional trademark registered by Nestlé, 2001.

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