

Value Articulation
- A Framework for the Strategic Management of Intellectual Property -

The Nespresso Case

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Coffee – The New Champagne

A prominent advertising campaign in Europe, featuring Hollywood Star George Clooney, was launched by Nespresso in 2006, culminating in one sentence: “Nespresso, what else?” Nespresso aimed at re-positioning its coffees as a premium product in the consumer segment giving it the aura of champagne as an aspirational experience. How can a relatively low-priced, low-margin mass-market commodity like coffee be transformed into a luxury, highly emotional good? What role does intellectual property management play in the transformation?

The Beginnings

In 1986 Nestlé of Switzerland launched Nespresso developing and introducing a new system of portioned, encapsulated coffee¹ and dedicated machines, pioneering the portioned coffee segment.² Within 25 years Nespresso grew to its present CHF 3.1 billion per year business,³ selling the encapsulated coffee at a price 10 times that of the non-ground commodity.⁴

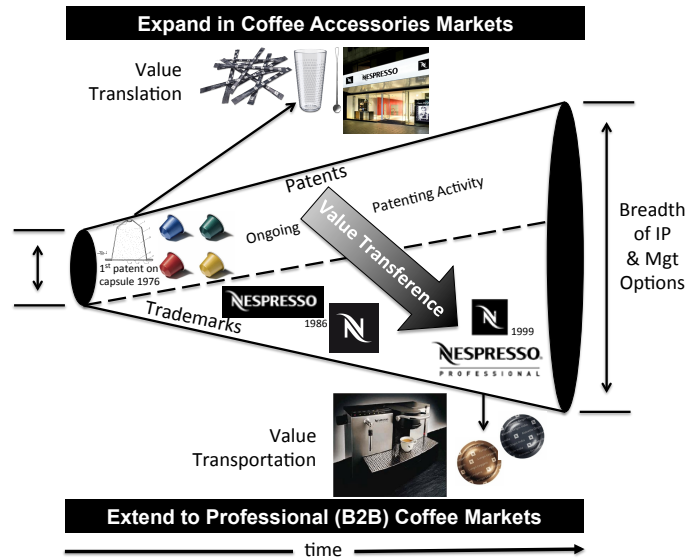
When Nespresso was introduced, the coffee market was dominated by traditional players such as coffee producers and distributors on one side of the market and machine manufacturers on the other. Competition was fierce. Margins were small. While the coffee machines improved over time it remained time-consuming to brew high quality tasting coffee at home. Nespresso wanted customers to enjoy premium coffee with minimum effort using specially designed machines and hermetically sealed, prefilled coffee capsules. Breaking the boundaries between coffee producers and machines, Nespresso sought to control the whole eco-system, from lean sourcing of coffee beans to production and sale of the packaged coffee.⁵ In addition, the Nespresso coffee machines were designed and manufactured in

cooperation with machine partners, incorporating the patented extraction and brewing units,⁶ all invented and owned by Nespresso.

Emotionalizing Value Articulation

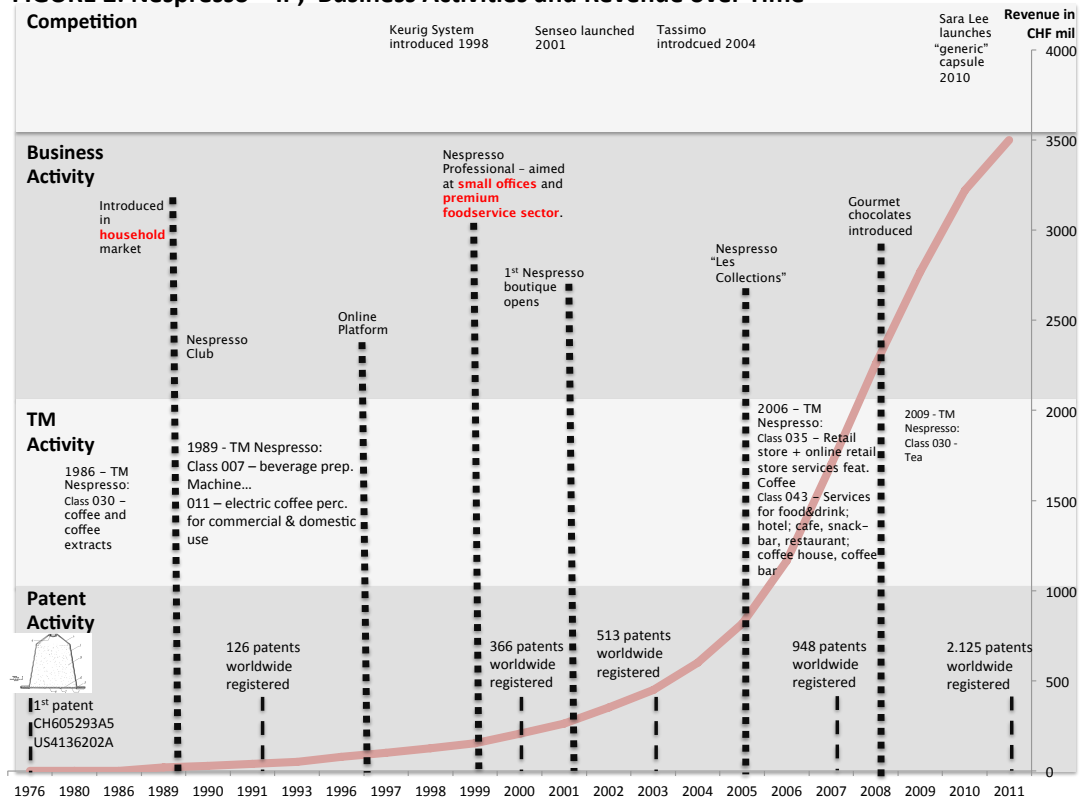
The Nespresso brand strength builds on the product's underlying inventions and its extensive patent portfolio protecting proprietary aspects that facilitate a delightful and convenient user experience. While Nespresso was enjoying this unique selling proposition on the market, it executed an extensive marketing and promotion campaign to establish itself as a premium source in the mind of its consumers. Nespresso founded the Nespresso Club, opened fancy Nespresso Boutiques worldwide and launched advertisement campaigns with the Hollywood star George Clooney. By doing so, Nespresso moved the consumers' attention away from the patented functional benefit of the product to the emotional benefit of the Nespresso trademark/brand, transferring the functional value to the trademark⁷ (see figure 1). 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.'"⁸

FIGURE 1: The Value Articulation Framework at Nespresso



In addition, the Nespresso technology and trademarks have been translated to additional product and service offerings, “ring-fencing” the actual business and shifting it to further growth and additional sources of revenue (see figure 2).

FIGURE 2: Nespresso – IP, Business Activities and Revenue over Time



Nespresso has been able to co-brand the brewing machine through the establishment of strategic partnerships with major coffee machine producers such as Bosch/Siemens, DeLonghi and others. It further offers related products under the Nespresso brand such as cups, chocolate, machine and other accessories. “The combination of the brand’s entrepreneurial roots and the ... approach to innovation continues to keep Nespresso relevant in the minds of consumers...,” says Gerhard Berssenbrügge.⁹ “...It has also allowed it to transcend the product category to become a truly global symbol of understated elegance.”

Nespresso started in the Business-to-Consumer (B2C) market and later moved into the Business-to-Business (B2B) market in 1999 (see figure 2). Nespresso Professional was designed for the business and hospitality industry,¹⁰ serving fine restaurants, hotels, luxury retail stores, offices and the travel market.¹¹ Both businesses are not only segmented strategically, but also technically: capsules and machines for home enjoyment differ in design and are not interchangeable. The value transportation into this new market enabled Nespresso to be an early mover in the encapsulated coffee B2B market, and further strengthen their brand awareness in the B2C market. Potential consumers who are not yet familiar with the Nespresso brand could now enjoy it first in a professional environment, for example in the office, on business trips, in hotels or at business schools and so forth.

Competition, What Else?

Nespresso’s business was built on a new product, which offered clear functional benefits to consumers, shielded from direct competition over the short- to medium term by a comprehensive patent portfolio. Nespresso was able to transfer these functional benefits to the brand by multiple marketing and branding activities. Today, the trademark/brand is believed to protect Nespresso from its rivals even after

the expiration of core patents. As Nespresso inventor Eric Favre observes: “A plethora of rival capsules will come out ... [but] ... the Nespresso brand is more important than the patents.”¹² Even with increased competition from companies like Senseo, Tassimo, Keurig or Sara Lee (see with figure 2) IP and business activities that support the value articulation framework have lead to sustained value creation culminating in a significant growth of the Nespresso business from CHF 200 million to more than CHF 3 billion within 10 years (see figure 2).

¹ Initial patent on capsule: patent number CH605293, source: Espacenet. Patent number US4,136,202, source: USPTO.

² Nestlé Nespresso SA, *About Us*, 2012, <<http://www.nestle-nespresso.com/about-us/our-history>>, accessed on May 15, 2012 and <<http://www.nestle-nespresso.com/about-us/strategy>>, accessed on May 15, 2012.

³ Matthew Allen, “Nespresso pours cold water over rival brands,” *swissinfo.ch*, February 21, 2011, <http://www.swissinfo.ch/eng/business/Nespresso_pours_cold_water_over_rival_brands.html?cid=29504576>, accessed on May 15, 2012.

⁴ Example, based on weight, at Swiss supermarkets, see with: Tom Muller, “Nespresso Will Survive ‘Plethora’ of Knock-Offs, Inventor Says,” *Bloomberg*, January 31, 2011, <<http://www.bloomberg.com/news/2011-01-30/nespresso-will-survive-plethora-of-knock-offs-inventor-says.html>>, accessed on May 15, 2012.

⁵ Nestlé Nespresso SA, *Corporate Backgrounder*, March 2012, <<http://www.nestle-nespresso.com/asset-libraries/Documents/Nespresso%20Corporate%20Backgrounder%20EN.pdf>>, accessed on May 15, 2012.

⁶ Nestlé Nespresso SA, *Corporate Factsheet*, March 2012, <<http://www.nestle-nespresso.com/asset-libraries/Documents/Nespresso%20Corporate%20Factsheets%20EN.pdf>>, accessed on May 15, 2012.

⁷ The following Nespresso trademarks are registered in the USA: TM Serial Number: 73620470, 74696199, 73742734, 78431975 (Nespresso Essenza), 77842854, 76204673 (Nespresso Professional), 85307536, source: USPTO.

⁸ Personal interview with Gerhard Berssenbrügge, 2012.

⁹ Personal interview with Gerhard Berssenbrügge, 2012.

¹⁰ Nestlé Nespresso SA, *Corporate Backgrounder*, op. cit.

¹¹ Nestlé Nespresso SA, *Nespresso Business Solutions*, 2009, <http://www.nespresso.com/pro/channel_be_en.html>, accessed on May 15, 2012.

¹² Muller, op. cit.