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**A STUDY ON NESPRESSO'S
BUSINESS MODEL AND ITS STRATEGIES**



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2 ABSTRACT

The scope of my thesis was to analyse Nespresso's business model, its competitors and identify the company's struggles in order to suggest solutions or strategies for the future. The study has been mainly limited to Nespresso and some of its major competitors in the Italian territory.

The objective of this research was to understand the salient features of Nespresso's business model, what resulted in its success and what elements led to its struggle in the market in the last few years.

The Business Canvas Model tool was used to identify the nine important building blocks of Nespresso's business and it highlighted the synergy between the various elements of the canvas.

This study examined some of the prominent strategies used by Nespresso that helped the brand sustain its principal position in the market. For example, the 'Bait and Hook' strategy commonly known as 'Razor and Blade' after Gillette is used by Nespresso where the coffee machine is given away for free to make profit on the repetitive sales of capsules. It increases the sales of the capsules which is profitable but at the same time focuses on the retention of customers too.

The use of Benefit Ladder tool helped to explore the emotional relationship that the customer creates with Nespresso and the benefits derived on being related to the brand.

A small section has been dedicated to the interesting synergy between the various coffee brands that Nestlé carries in its portfolio.

To understand Nespresso and what makes it different from the other players, it was also important to analyse its competitors. This study was able to evaluate the points of parity and point of differences between the major players and Nespresso by comparing some basic attributes and strategies adopted by the various players.

The major players that were selected to do the comparative analysis with Nespresso were Illycaffé, Lavazza, Nescafé Dolce Gusto and Caffé Borbone.

The reason for choosing Illycaffè and Lavazza was due to that fact that both the companies had their respective systems of machines and capsules but at the same time, they also produced capsules that were compatible with Nespresso.

The reason for choosing Nescafé Dolce Gusto was to understand how Nestlé placed this brand in the market along with Nespresso without resulting in the cannibalization of the brands. The

thesis also performs a quick analysis of Starbucks which sells single-serve coffee under Nestlé's umbrella of coffee brands and how it was placed in the brand's portfolio.

The reason for choosing Caffè Borbone was to understand how a relatively new brand like Caffè Borbone in the portioned coffee sector, decided to compete with Nespresso.

The comparative analysis between the various brands were performed using the Marketing Mix technique - the 4P's: Product, Place, Price and Promotion.

Through my research I found that Nespresso was able to maintain its dominant position in the market due to its customer centric approach to the business. The quality was not just about the coffee but also about the services that it provided for the customers both in boutique and online. All the strategies adopted by the brand were coherent and consistent with its business model.

A small section has been dedicated on Nespresso's online platform.

At the same time, the company was facing strong competition from its rivals and was losing its market share. This is due to penetration of the market by players who produce Nespresso compatible capsules. The company decided to fightback the competition and retain its elite customer base by implementing subscription models.

In the end, I have suggested few strategies that Nespresso could adopt to compete against its rivals. They are mainly recommendations based on my analysis on the market segmentation and the small gaps that are present in the market that Nespresso can use intelligently to increase sales.

3 MY EXPERIENCE AT NESPRESSO

I started my journey at Nespresso as a Logistic and Service Specialist intern. My day-to-day activities included preparation of quantitative and qualitative analysis of various services, monitoring and updating performance KPIs, managing customer complaints and resolving them or taking measures to reduce it and interfacing with the warehouse and supporting them reducing impacts on customer experiences.

Although not surprising, it was quite interesting to note the amount of work put behind to serve the 'perfect cup of coffee' to its members. During my training period, I got the opportunity to speak with a lot of my colleagues and take part in a lot of events that nurtured and enriched my passion for the brand and for the coffee.

Nespresso has been a brand that had always intrigued me for many reasons. Firstly, for Nespresso's premiumization. The company sells coffee capsules at a premium price positing itself as a luxury brand. Secondly, Nespresso was able to change the way people were used to making coffee: shifting from moka to instant coffee machines. Thirdly, Nespresso was not selling a simple cup of coffee but a coffee experience.

All this was possible due to the strong brand positioning that reflects luxury in every aspects of its business, from products to the services offered to its members. Foremost, people are willing to pay a premium price due to the quality of the coffee in the capsules.

Another aspect that was quite interesting was the way in which the brand decided to reach out to the customer. Nespresso sells directly to the customer without any intermediaries. They sell their products through their flagship stores called Boutiques, once again recalling luxury, and through their online e-commerce platform.

Through the course of six months, I saw that every approach the company took was intensively customer-centric: Customer satisfaction was the key to success and growth. The brand was constantly innovating to adapt to newer customer requirements.

Like life, neither Nespresso is a bed of roses. The compatible capsules are the thorns in this case. In the last few years, the growing market for portioned coffee capsules attracted competition for Nespresso.

In my thesis, I have gone through the various aspects of Nespresso that have made an impression on me. I have also tried to do a comparative analysis with the major player in the sector.

Finally, I have proposed few suggestions or recommendations that could help Nespresso in continuing to do what it does the best: serving the best cup of coffee with a customer-centric approach.

Although I don't work anymore at Nespresso and will only be able to imagine how my recommendations would have worked out, all the conclusions made in this thesis have been rigorously analysed and justified using tools like Business Canvas Model and Marketing Mix. In fact, for this reason, the conclusions made have a qualitative nature rather than quantitative.

4 INTRODUCTION: COFFEE INDUSTRY

Coffee is the most popular beverage in the world, with more than 400 billion cups consumed each year. After crude oil, coffee is the world's second-most-valuable commodity exported globally.

The global coffee market is expected to grow annually by 5.5% [1] while Europe is expected to grow annually at a rate of 3.3% (CAGR 2019 - 2024) [2]. Europe was that largest market of coffee drinkers on the planet, representing 30% of the global coffee market in 2018.

In 2018, Germany accounted for roughly 26% of total European consumption in 2018. Germany was followed by France (12%) and then Italy (11%). Other large consuming markets in Europe include Poland (6.7%), Spain (5.8%) and the Netherlands (5.6%). [3]

The highest average annual per capita consumption in the world is held by Europe at just above 5 kg of coffee per person a year: Finland was leading with an average annual coffee consumption of 12 kg per capita. [3]

Coffee is an integral part of culture in Italy, where each person consumes an average of 5.9 kg of coffee a year. Italy is the second-largest importer of green coffee beans in Europe after Germany. A large share of this import contains Robusta varieties and they are mainly imported through the Port of Trieste and the Ports of Genoa. In 2018, Italian green coffee bean imports reached a volume of 606 thousand tonnes at €1.3 billion in value, after growing at an average annual rate of 3.2% in volume and 3.4% in value between 2014 and 2018 [3].

Brazil and Vietnam are the largest suppliers of green coffee to the European market, accounting for more than half of Europe's imports at 30.1% and 25.4% shares respectively. Other significant suppliers of green coffee to Europe include Honduras (7.6%), Colombia (5.4%), Uganda (5.4%) and India (5.3%) [3].

The two major coffee beans that are available in the market are Arabica and Robusta. Arabica is a superior quality coffee that is rich in flavour. Robusta is considered to be a lower quality bean with respect to Arabica since it's more acidic and bitter. While Brazil is the large supplier of both Robusta and Arabica varieties, Vietnam, India and Uganda have a strong focus on Robusta production.

Europe is home to many coffee roasters and is mainly dominated by a few large roasting and grinding companies, namely Nestlé, Jacobs Douwe Egberts and Lavazza.

Italy houses a very strong coffee-roasting industry where giants like Lavazza, Segafredo and Illy export substantial amounts of Italian blends to destinations all over Europe and the United States.

The 1st of October has been dedicated to International Coffee Day to celebrate coffee and recognise the millions of people across the globe - from farmers, to roasters, baristas, coffee shop owners who work hard to create and serve the beverage preferred by a large part of the population.

Given the rising coffee consumption, the global production is expected to rise by an extra 40 million to 50 million bags of coffee in the next decade.

Coffee categories, as found in the retail market, can be divided into four macro area:

- Roasted Whole Bean: Used mainly in coffee shops and for small scale domestic use;
- Roasted Ground coffee: Used mainly for domestic purpose;
- Soluble Coffee: Instant coffee for domestic use;
- Coffee in capsules and pods: For both domestic and office use;

4.1 SEED TO CUP: THE JOURNEY OF COFFEE

Between the time they're planted, picked and purchased, coffee beans go through a typical series of steps to bring out their best. From seed to cup, the coffee that we enjoy today has taken a long journey to arrive in our cup. Following are some of the major activities and steps included from coffee harvesting to brewing [4]:

- Planting: Coffee seeds are generally planted in large beds where the seedlings will be watered frequently and shaded from bright sunlight until they are hearty enough to be permanently planted.

- Harvesting: When the coffee cherries are ready to be harvested, they are either done by machines or handpicked.
- Sorting and selecting: Once the debris are removed, the cherries are thrown into a tank to remove the unripe ones; they float on the surface.
- Pulping: This process involves getting rid of the skin and pulp that surrounds the coffee bean.
- Drying: The pulped beans are then dried to remove the moisture content;
- Storage: Coffee are then stored on large sacks for several months before it gets transported.
- Milling: Through two technical process called hulling and polishing, all other unusable layers are removed.
- Grading or Cupping: Professional coffee graders value the quality of the coffee beans based on their defects.
- Distribution: After the grading process, the coffee beans are then distributed or shipped to the client in either jute or sisal bags.
- Roasting: Roasting transforms green coffee into the aromatic brown beans. The roasting temperature is usually around 300°C and it may vary as this essential process brings out the various flavours and aroma depending upon the characteristics of the bean and the temperature.
- Packaging and Grinding: Coffee beans are then packed as whole beans to be distributed to bars or other business uses. While some are grounded and packed to produce ground coffee ready to be used in moka, or any other coffee brewing machines.
- Brewing: It depends upon a lot of factors: The machine being used, the grind size of the beans, water to coffee ratio, the temperature etc. A right combination of all these factors result in a perfect cup of coffee.

5 PORTIONED COFFEE INDUSTRY

The business model in the portioned coffee segment is based on consumers selecting a system of portioned coffee by purchasing a machine for their home or business use. The consumer uses the respective coffee portion or capsule (or pods) in the machine that automatically prepares coffee in seconds, ready to drink. In 1976, it was Nespresso that introduced “portioned” coffee to the world.

The revenue in this segment comes mainly through sales of portioned coffee while the machines are generally sold at a break-even price or free to “lock in” the customer in a particular brand and its portioned coffee system.

This segment mainly consists of the Coffee pods E.S.E (Easy Serving Espresso) and the capsules (both original and compatible). The major systems in this segment include Nespresso system, Nestlé Dolce Gusto system, Lavazza A Modo Mio system and etc.

The distribution channels where the portioned coffee are sold are numerous and it mainly depends on the final client:

- B2C: Household clients: Retail - Supermarkets, Specialized stores, E-commerce etc.
- B2B: Business clients: E-commerce distributors, Vending, Office segment, Ho.Re.Ca etc.

6 NESPRESSO

6.1 COMPANY BACKGROUND

Nestlé Nespresso S.A, better known as just Nespresso, is an autonomous but globally managed business unit of Nestlé group which sells pre-portioned single-serve coffee capsules and coffee brewing machines. Nespresso, from its early days was positioned as a luxury brand delivering the best possible coffee experience that enables anyone to create the perfect cup of coffee just like a skilled barista.

Nespresso has its headquarters in Lausanne, Switzerland and sells its products in 64 countries and operates three production centres, all in Switzerland.

The patented Nespresso was first introduced to the business market in 1976 by Eric Favre, an employee of Nestlé. Unfortunately, it was not a success as the sales sagged far below expectations. Later in 1986, under the leadership of Jean-Paul Gaillard, the company’s business

model took a drastic change: Nespresso decided to sell its coffee to high-income households selling directly through mail shifting its focus from the office segment to household consumer segment. Through the introduction of high-end retail stores called Boutiques, the online presence and Nespresso Club memberships, the model proved successful.

The core concept is based completely on a brand that offers attractive capsules that interact with stylish and innovative machines to deliver the perfect cup of high-quality coffee at the comfort of one's home.

Nespresso's direct-to-consumer model is the only one in the Nestlé portfolio. The brand invites clients into an exclusive relationship where they purchase a machine of their choice, either online or at a Nespresso boutique, automatically becoming members of the Nespresso Club (Nespresso's consumer channel). Through a customer-centric approach enhanced by tailored service, Nespresso establishes a premium brand for coffee connoisseurs worldwide.

Nespresso's marketing strategy is at par and coherent with its business model. Strong narratives and storytelling accompanied by television advertisements featuring a global brand ambassador, George Clooney, has helped position Nespresso as an attractive, upscale, high-quality coffee brand.

Although a subsidiary of Nestlé, Nespresso is one of the most successful and powerful commercial products businesses of the 21st century.

6.2 NESPRESSO'S SUCCESS FACTORS

Nespresso's success can be attributed mainly to three factors:

1. Quality of the Nespresso system;
2. Unequaled customer service;
3. Brand Equity;

Nespresso's strong point is the quality of the coffee that it offers. Nespresso's coffee experts select the highest quality beans from the world's finest coffee producing regions, ensuring that only the highest quality coffee makes its way to its consumers.

Nespresso is able to manage every aspect of the coffee production process from farmers to consumers maintaining the highest quality standards everywhere. Nespresso broke the

boundaries by sourcing directly from the coffee producers, removing the intermediaries, thereby controlling the whole value chain from sourcing to production to packaging.

Each capsule has a distinct characteristic and flavour that suits every taste preference. In fact, Nespresso calls its coffee collection, the Grand Cru, a term widely used in the world of wines to refer to the best quality wines.

Nespresso offers a wide range of innovative machines that are elegant and innovative.

The Nespresso Club that offers unmatched personal service and the Nespresso Boutique is the perfect example of a retail customer experience. A place where all the services of Nespresso Club is brought together in one place creating an experience that is unique and one of a kind.

Nespresso continuously strives to deliver the highest quality of customer service where coffee lovers are invited to experience the art of espresso. A Nespresso Boutique is where a customer can relax and experience the pleasure of drinking a premium quality coffee.

Like any retail store, Nespresso boutiques too have sales representatives called Coffee specialists who offer personalized advice, provide guidance and share their expertise with the customer to help them select the perfect coffee. Customers are welcomed by these specialists, who introduces them to the vast coffee range encouraging them to explore the coffee tasting rituals. Customers gets to check out the coffee machines and accessories too.

The boutiques are modern and stylish combining contemporary shapes and materials - an eclectic mix of colours and materials. A Nespresso Boutique is a valid example of a customer-centric retail experience giving their members unexpected moments of coffee happiness.

Selling directly to the customers means a large marginal benefit on the sales and a close control over their distribution channels.

With George Clooney as the brand ambassador and the slogan, “What Else?” customers are given a feeling of superiority and sophistication. Through the actor, the brand tries to reaffirm its position as a luxury brand.

6.3 NESPRESSO’S PORTFOLIO OF COFFEE

Nespresso’s coffee portfolio is rich and unlimited. They have been curated with craft and sophistication to satisfy the needs of all the coffee lovers.

With the Master Origin portfolio, Nespresso has brought to the coffee table a range of finest coffees from around the world. The Master Origin selection includes Indonesia, Ethiopia,

Colombia, India and Nicaragua. Coming from 5 different countries, each coffee has a unique taste and aroma. Except for India, which has a combination of Arabica and Robusta, all the other collections are composed of hundred percent Arabica blend. Nespresso curated this collection by promoting the native coffee cultivating techniques in each country that gives them their uniqueness. They are priced at € 0,43 euros per capsule.

Through vivid yet subtle colours and description, Nespresso indulges the customer in a multi-sensorial narrative.

Barista Creations was introduced to satisfy the growing appreciation of milk by the coffee lovers. This range of coffee come in three variations: Chiaro, Scuro and Corto. This collection of coffee can be combined with to craft a perfect Cappuccino, Latte Macchiato, Caffè Latte or any other coffee-based milk beverage. They are priced at € 0,43 euros per capsule.

The Intenso category offers five varieties of bold and strong coffees: Kazaar, Dharkan, Ristretto, Arpeggio and Roma. They are priced at € 0,39 and € 0,43 per capsule.

The Espresso category offers: Livanto, Capriccio, Volluto and Così. This collection is priced at € 0,39 euros per capsule.

The Espresso XL or Lungo category has: Envivo Lungo, Fortissio Lungo, Vivalto Lungo and Linzio lungo. priced at € 0,41 and € 0,43 per capsule.

The Decaffinato, as the name suggests, offers the most enjoyed coffees by the coffee lovers in their respective decaffeinated versions. They are priced at € 0,41 euros per capsule.

Variation: This category of coffee introduced variations of the coffee Livanto combined with some natural aromas like Caramellito, coffee that tastes like caramel, Ciocattino, coffee that tastes like chocolate and Vanilio, coffee that tastes like vanilla. They are prized at € 0,47 euros per capsule.

Nespresso also introduces Limited Edition coffees. They are exclusive coffees that are available for a limited period of time. Right now, there are two limited edition varieties: Tribute to Milano and Tribute to Trieste. Due to their exclusivity, they are usually priced premium – € 0,49 per capsule.

7 NESPRESSO'S BUSINESS MODEL CANVAS

A Business Canvas Model is a template, or a visual chart made of nine building blocks that show the logic of how a company intends to make money. The nine essential building blocks describe a product's value proposition, infrastructure, customer and finance.

1. Customer Segments:

Nespresso serves two major customer segments: B2C (Business to Client) and B2B (Business to Business).

- B2C clients: High-end household clients who appreciate coffee and who are willing to pay a premium price for coffee;
 - o Frequent consumers of coffee;
 - o Coffee connoisseurs who prefer good quality coffee;
 - o Medium – High income;
 - o *Stylish and establishing a status quo*;

- B2B clients: High-end office and business clients who want to want to serve premium quality coffee to their clients:
 - o Big companies and office;
 - o Hotels and restaurants;
 - o Airlines etc;

2. Value proposition:

- Convenience and Usability:
 - o *Hazzle-free experience*: Single-serve pre-portioned coffee capsules that can be used in an easy to use machine with an ergonomic handle;

- Accessibility: Nespresso capsules and machines that can easily available bought through its boutiques or online;

- Brand/Status:
 - o Being a part of Nespresso means being a part of lifestyle that is special and exclusive as it offers premium quality coffee sourced from the best coffee-growing countries – premium and superior taste;

- Design:
 - o Stylish machines: The compact and lightweight machines are produced in partnership with kitchen equipment manufactures like Krups and DeLonghi;
 - o Capsules: The aluminium capsules come in wide range of colours each representing a different type of coffee. The capsules are known for its sleek contours and vibrant colours.
- Rich portfolio: Assorted varieties of coffees and machines providing a wide gamma of products for the customers;
- Recycling Points: Nespresso is the only company in the Italian territory to implement a recycling program. The Nespresso Boutiques also function as collection points where used capsules can be dropped off by customers for recycling.

3. Channels:

- Boutiques: An extensive network of flagship stores throughout the globe, Nespresso boutiques are known for their personalized services and their stylish design. They aim to offer an insight into the brand, providing consumers with a unique opportunity to experience Nespresso with all their senses.
- E-commerce – Desktop and Mobile: A dedicated website rich in experience similar to that of a Nespresso boutique that allows customer to place orders anytime.
- N-cube: An automate retail concept that prepares any order at unseen speed thanks to an advanced, robotized order-picking system. At 9 square metres in size, the Nespresso Cube can hold up to 25,000 capsules. With state-of-the art technology, the Nespresso Cube can process a personalised order of 10 different capsule sleeves in just 20 seconds.
- N-points: In partnership with selected stores, like MediaWorld, N-Points allow customers to choose and collect coffee capsules in a practical and fast way. Customers can select the coffees they want from the N-Point automatic terminal and pay immediately with a credit card. Once the customer shows the receipt at the store's service centre, he/she can receive the Nespresso shopper with the order ready and packaged.

- Call-centres: Nespresso calls its call-centres *Customer Relationship Centres (CRCs)*. It is a network entirely dedicated to customers where well-informed Coffee Specialists provide advice on coffees, machines and accessories. They also offer instantaneous ordering of Nespresso products and coordinate machine repairs.

4. Customer relationships:

“Coffee is at the heart of all we do. Yet consumer pleasure is why we do it.” Nespresso is able to put forward such strong statement as all its activities have a customer-centric approach.

When anyone buys a Nespresso system, they automatically become a Nespresso Club Member. This consumer channel has been designed to help the member select the right coffees for their taste. The company provides personalized and long-lasting relationships with its Club Members through regular interaction with them, enabling the company to meet or anticipate consumer expectations. Nespresso’s customer relationship is omnipresent throughout its various channels: boutiques, online store, and *Customer Relationship Centres (CRCs)*. The customer facing is done by trained and well-informed employees called “Coffee Specialists” who advise the Club Members on coffee origins and tastes and to guide them in discovering new coffees and flavours. These specialists respond to Club Members’ questions regarding any aspects of Nespresso’s business.

- Nespresso Club:
 - o Coffee specialists in Boutiques;
 - o Coffee Specialists in Call-centres and for Online purchase;

5. Revenue Stream:

Nespresso uses of a combination of different pricing mechanisms to earn revenues. The revenue from capsules is almost 92% and this is basically due to Nespresso’s ability to exploit the repetitive nature of capsule buying. This is a renowned strategy used by companies like Gillette etc and is called *Bait and hook* (or *Razor and blade*). This has been discussed in depth later. Revenue from machines accounts to a very small percentage – around 4%.

Nespresso uses a combination of pricing mechanisms on the capsule sales. The price is usually fixed for the Permanent collection capsules and starts from € 0,38 cents per capsule and go up to € 0,49 per capsule (Fixed Pricing). This price variation is due to the intrinsic characters of

the capsules like the quality and the blends of coffee in the capsules (Product Feature Pricing). This is due to various factors like sourcing of coffee from best coffee cultivating countries, roasting, logistics etc.

Another pricing mechanism used by Nespresso is dependent on the volume bought by the customer. For example, the e-commerce platform offers free delivery for a minimum order of 100 capsules (Volume Dependent Pricing).

6. Key Resources:

- Production Plants: Three production centres in Switzerland - Orbe, Avanches e Romont.
- Distribution Channels: Nespresso has two warehouses facilities in Italy. One in Milan and the other in Rome that distributes its products to the various channels, both physical and online.
 - o Boutiques: Italy has almost 68 Nespresso boutiques serving customers throughout the country.
 - o N-cubes /N - points: Investments on automated self-service systems are critical to the company.
- Patents and Intellectual property: Nespresso has numerous patents and intellectual properties on the machines.
- Branding: Nespresso positions itself as a luxury brand delivering the best possible coffee experience for their Club Members.

7. Key Activities:

- Production: From procurement of the coffee beans to the production of capsules, all the key activities behind the production takes place in Switzerland.
- Marketing: All the activities in the various distribution channels have been tailored to the meet and go beyond the expectations of the consumers. The Club members feel special and exclusive being a part of the Nespresso community. Through customized services and regular interactions, Nespresso is able to achieve long-lasting customer relationships.

- Logistics: Nespresso's multi-channel approach has resulted in guaranteeing an omnipresent customer service to its Club Members. The two warehouses are equipped to serve the logistic requirements of both the online and boutique orders.

8. Key Partnerships:

- Coffee Producers and Rainforest Alliance: Working closely with the farmers and cooperatives through Rainforest Alliance, Nespresso is able to foster long term relationship with farmers embedding sustainable farming practices that improves the yield and quality of the harvest.
- Coffee machine manufacturers: Nespresso has outsourced the manufacturing of the coffee machines to kitchen equipment makers like DeLonghi and Krups. Nespresso holds numerous patents and intellectual properties on the machines.
- Courier companies: For all the e-commerce orders to reach the Club Members within the promised date, a strong logistic network is required. This would not have been possible without the collaboration of a logistic hub, the parcel carriers and their extensive network of distribution centres that are capable of handling thousands of orders.

9. Cost structure:

- Production: The production facilities require huge investments to be run continuously to serve the growing and varying demands for the capsules.
- Marketing: A brand highly dependent on its marketing strategies, Nespresso has an expensive marketing cost. Testimonials, TV and radio advertisements and social media presence, all require huge financial investments.
- Distribution Channels: The distribution costs can mainly be attributed to the running of warehouses, the various distribution centres and courier services. This is quite critical as

customers must receive their orders within the promised delivery date. The boutiques are located in city centres require a huge amount to be set up. The automated terminals (N-points) use state-of- the art technology and is quite expensive.

BUSINESS CANVAS MODEL - NESPRESSO

Key Partners COFFEE MACHINES MAKERS COURIER COMPANIES	Key Activities PRODUCTION MARKETING LOGISTICS	Value Proposition CONVENIENCE AND USABILITY ACCESSIBILITY BRAND DESIGN RICH PORTFOLIO OF COFFEE RECYCLING POINTS	Customer Relationships NESPRESSO CLUB MEMBERSHIP COFFEE SPECIALISTS	Customer Segments B2C: HOUSEHOLD CLIENTS B2B: OFFICE AND BUSINESS CLIENTS
	Key Resources PRODUCTION PLANTS BRANDING PATENTS DISTRIUTION CHANNELS		Channels BOUTIQUES ONLINE: PC & MOBILE CALL-CENTRES (CRC) N-CUBE N-POINT (ELECTRONIC RETAIL SHOPS)	
Cost Structure PRODUCTION MARKETING DISTRIBUTION NETWORK			Revenue Streams REPETITIVE SALE OF CAPULES COFFEE MACHINES	

Table 1: Business Canvas Model for Nespresso

8 STRATEGIES AT NESPRESSO

In 2008, Nespresso was included in the Top 100 most Powerful Brands and ranked Number One in this category. Nespresso was also the first roast-and-ground coffee brand to achieve a global status, as ranked by Millward Brown in 2008. Nespresso was chosen as number one European Trusted Coffee Brand in 2010 by Reader's Digest in a survey of 16 markets. Nespresso's success is built on company's strong strategic approach which is coherent with its business model resulting in its strong brand position. [5]

The average cost of ground coffee used in a traditional moka found at every household in Italy is roughly around € 15 euros per kilogram. This means that a cup of coffee made in moka would cost less than € 0,10. While a Nespresso capsule is priced at a range of € 0,39 – € 0,47 per capsule. So, a cup of Nespresso costs around 4 to 5 times that of a normal cup of coffee. So, what makes customer buy Nespresso?

The willingness to pay of Nespresso's consumers may be quite intriguing but it is not surprising at all. The pricing power that Nespresso holds in a competitive market like this can be attributed to the strong and creative branding that the brand has developed through the years.

Nespresso not only offers a perfectly portioned highest quality coffee that can be used in a smart and easy to use machines but a Nespresso Club with personalized services. Its unique business model works to ensure a premium experience for customers in all their interactions with Nespresso.

When customer buy Nespresso Capsules, they are not just buying a premium cup of coffee but a sensorial coffee experience. From the unique coffee experience that boutique offers to the personalized services, from the colour of the capsules to the sophisticated design of the machines, all these aspects contribute to the brand value of Nespresso giving it a perceived value that is much higher than that of the other brand in the market.

The coherence of the brand value and the strategies allows Nespresso to place itself as a premium coffee producer.

Through my research, I have identified and explored in detail four main strategies that Nespresso has adopted:

1. **BRANDING WITH STORYTELLING**
2. **A UNIQUE EXPERIENCE**
3. **EXCLUSIVITY AND INNOVATION**
4. **BAIT AND HOOK MODEL**

Strategies are not just limited to internal decisions but can also be external. Being a part of a multinational company like Nestlé pushes Nespresso to align strategies with the parent group and its sister brands. I have briefly described the positioning strategies adopted by Nestlé's coffee brands.

At time strategies result in collaborating with a potential competitor to avoid market share war that might become brutal. In the following sections, I have discussed Nestlé's about the recent Starbucks collaboration that release Starbucks coffee in Nespresso compatible capsules.

8.1 BRANDING WITH STORYTELLING

“When you drink a Nespresso coffee, you don't just drink a coffee but achieve a complete coffee experience”. For such a strong claim to be put into practice, Nespresso relies on a solid storytelling. But if a brand needs to achieve complete success, it must be able to translate its storytelling into storydoing. Gaining consumers' trust is not only about telling them nice and inspiring stories; it is about putting into practice what the brand sustains to offer.

Nespresso's commercials hold a promise of exclusiveness and quality, which could be found at Nespresso stores and online. It promises the customer premium coffee experience in all sense. The brand deciphers this by offering a personalized and qualitative service to every person joining the Nespresso “Club”. The term Nespresso club was coined in a way that they could call their customers “members”. In this way, the brand makes its quality coffee even more enjoyable by offering services that pleases its members.

The consistency between the message that a brand communicates to its customer and what the brand is able to offer is quite important. Through its advertisements, Nespresso upholds that each individual capsule offers an opportunity to the customer to see himself/herself as a sophisticated coffee connoisseur.

Nespresso was born as a luxury lifestyle brand selling coffee. Calling their flagship stores Boutiques, recalls and reaffirms the idea of something precious and exclusive. Just like George Clooney, a Nespresso Club member can enjoy a comforting cup of coffee whenever the customer wants to. Making Clooney the face of the brand was a revolutionary move at a time when celebrity endorsements were normally reserved for luxury products like perfumes or watches. The very first set of coffee collection was called Grand Cru in reference to wines of recognized quality.

8.2 A UNIQUE EXPERIENCE

Nespresso firmly believes in maintaining a close relationship with its Club Members, anticipating and exceeding their evolving expectations. The Nespresso Club Membership comes along with a

range of benefits like free delivery, automatic order online, special promotions, 24-hour coffee specialist hotline and exclusive brand events in the local Nespresso store. Every activity is designed to cater to customer requirements and maintain loyal customers. By doing so what Nespresso creates is a community of coffee enthusiasts, creating a sense of belonging to global community of coffee lovers.

The coffee specialist advice and help members learn about the Coffee, which in turn enriches their coffee experience.

Every time a 'Limited Edition' is introduced, the privileged Nespresso members gets to taste and experience the new blends first-hand much before than the others. Such personalized attentions deliver exclusivity to the customer thereby creating a unique experience.

Boutiques allow Nespresso to be in direct contact with consumers allowing to cater to their every need and expectation. Through the direct and instant contact with the coffee specialists, Nespresso can offer personalized services which meets their individual needs and preferences.

Nespresso's e-commerce website is more than an online purchasing platform. A quasi replication of the Boutique, the website offers more than a simple click and order platform. Through the Club Membership information, the website is able to suggest capsules or other products to match the taste and preferences of the consumer.

8.3 EXCLUSIVITY AND INNOVATION

While Nespresso has around 25 permanent collections, it also introduces 'Limited Edition' coffees for a limited period and during festive seasons each year. They are rare and special due to the exclusive coffee blends in them. They are usually priced much higher than the permanent collection. Right now, for example, Nespresso offers two limited edition capsules: Tribute to Milano and Tribute to Trieste, both priced at € 0,49. If the average cost of a Nespresso capsule is € 0,42, these limited-edition capsules are priced almost 17% higher than the permanent collections. This ability of Nespresso to innovate and develop new taste blends adds value to the brand.

The sale of these special limited-edition coffees is usually accompanied by a strong storytelling. For example, according to Nespresso, Tribute to Milano reflects the elegant and vibrant city of Milan. In the hustle and bustle of this cosmopolitan city in northern Italy, coffee is often enjoyed at a fast pace while standing at the bar. Using a highly aromatic blends of Arabicas from Costa Rica and Columbia finished with Indian Robusta, Tribute to Milano gives a fruity and sweet cereal note.

Limited Edition, from strategic point view, induces the idea of something exclusive, rare and special creating curiosity in customers. In additions, being a limited edition, it induces an idea of scarcity of the product leveraging on the impulsive purchasing behavior of the consumers. The bright colors and the subtle design of the packaging adds to this rare coffee experience. Like the permanent

In a way, Limited Editions can also be seen as market tests by Nespresso. It can help the company understand the varying tastes of its customer and accustom new blends according to their evolving and changing pallets.

8.4 BAIT AND HOOK MODEL

“Bait and Hook” is a business model based on offering an initial attractive and/or inexpensive price that promotes the future purchase of relative products or services. Widely known as “Razor and blade”, this technique was popularized by Gillette, the razor and blade company. The core idea of this method is to lure the customers with an initial offer that is irresistible and earn revenue from future or follow-up sales.

So, in case of Gillette, a razor and a blade are offered to the consumer at an attractive price while the company makes money on the blades to be bought later in the future exploiting the continuing and repetitive nature of the purchase. The company does not make huge profits with the initial inexpensive sale but makes huge margins on the follow up sales.

What is crucial to this technique is the “lock-in” pattern that makes the follow-up product unique. Gillette, for example, has blocked competitors through thousands of patents ensuring that the competitors couldn’t offer cheaper blades for the Gillette Razor set.

Nespresso has a similar approach with its Nespresso Easy program. It has two programs: For those who don’t have a Nespresso machine and for those who already have a machine. Both the programs are based on subscription plans.

Those who don’t have a Nespresso machine, can buy one for free. What you pay is a subscription fee based on your coffee consumption plan. So, each month, the value of your credit is converted into credits that can be used to buy capsules or any Nespresso products. The subscription is valid for 12 months. The consumer gets a machine that costs, let’s say € 99, for free.

Those who already have a machine, can choose a subscription plan that fits their monthly coffee consumption. The value of the subscription plan gets converted to credits that can be used to buy capsules. Both the plans offer free shipping.

A further analysis of the subscription model has done in a further chapter.

8.5 NESPRESSO AND NESTLÉ'S OTHER COFFEE BRANDS

Nestlé under its portfolio has many coffee brands other than Nespresso. It is quite important to maintain a synergy between the brands to avoid the chipping away of their respective market share. Hence, it is essential to adopt a positioning strategy that distinguishes the various brands from each other.

Nestlé is one of the major players in the coffee business. It has mainly three brands: Nespresso, Nescafé Dolce Gusto and Nescafé. The high ranking of the brand in the coffee business was made possible due to its wide gamma of coffee products each curated and positioned in a unique way. So, how was Nestlé able to establish the synergy between Nescafé, Nescafé Dolce Gusto and Nespresso and more importantly, how did Nestlé avoid cannibalization?

Nestlé initially began with its instant coffee under the brand Nescafé with a mass marketing strategy. It was sold indirectly to the customer through GDOs. Nescafé focused on urban young customers with busy lifestyle who needed a quick solution for coffee and yet want to enjoy the perfect cup of coffee with rich in aroma and taste.

With Nespresso's introduction in the portfolio, Nestlé was now serving to a different set of customers - a niche of affluent customers. Nespresso took a different route with respect to Nescafé in terms of distribution. Nespresso was sold directly to the customers through its flagship stores and e-commerce platform.

Nescafé Dolce Gusto was introduced later by Nestlé which was placed strategically in between Nescafé and Nespresso. It served the mid-tier segment selling through mass retailers making it available in the mass market. The brand was born as a complementary system to Nespresso that could serve cappuccinos and lattes.

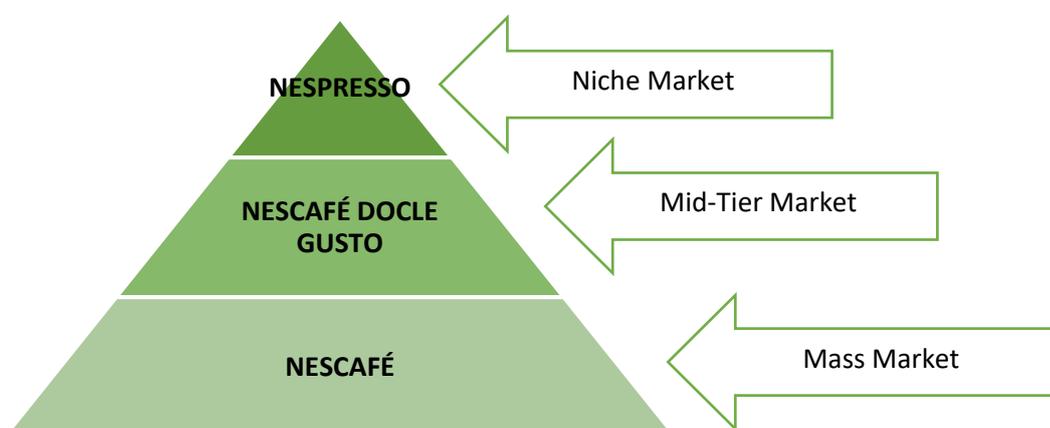


Figure 1: Market segmentation by Nestlé's coffee brands

Although the technology behind Dolce Gusto system was developed in collaboration with Nespresso, Nestlé decided to sell the system under the existing brand of Nescafé without creating a new brand or a company. Apart from the retailers, Nescafé Dolce Gusto is also sold directly through customers through its e-commerce platform. Nescafé Dolce Gusto was born combining the best of Nescafé and Nespresso.

Nespresso, from the beginning, was an autonomous company with an organizational structure different from that of Nescafé. In fact, each company had different approaches towards its core activities and logistics, leaving out any doubts of cannibalization. In this way, with each brand having a different segment of the market to serve and each brand having been positioned strategically, the cannibalization of the brands was avoided.

8.6 STARBUCKS IN NESPRESSO COMPATIBLE CAPSULES

At times, in front of a possible strong competition it is better to cooperate rather than fighting for market share. A strategic alliance can strengthen the companies taking part in the alliance.

In October 2019, Nestlé launched a new range of coffee products under the Starbucks brand which consists of 24 products, including whole bean and roast and ground. It also launched the first-ever Starbucks capsules developed using Nespresso and Nescafé Dolce Gusto proprietary coffee and system technologies.

The alliance will capitalize on the experience and capabilities of both companies, Nestlé's coffee and system know-how with the Starbucks coffee, roasting and blending expertise with the goal of enhancing its product offerings for coffee lovers globally.

With the licensing agreement for 6.13 billion euros, Nestlé will now be able to sell a variety of Starbucks products, except the "ready-to-drink", worldwide outside the US coffee shop chain. Nestlé will oversee the sales and will pay a royalty to Starbucks. By entering into retail, through the selling of capsules, this collaboration would definitely give a hard time to the big players in the market like Lavazza, Illy, Kimbo and other compatible capsules companies who are trying to capture Nespresso's and Dolce Gusto's segments.

The partnership will strengthen Nestlé's coffee portfolio in the North American premium roast and ground and portioned coffee business. It will also unlock the Starbucks' global expansion in grocery and foodservice utilizing Nestlé's global reach.

For the Nespresso system, Starbucks offers 7 different varieties: Blonde Espresso Roast, Single-Origin Colombia, House Blend, Single-Origin Sumatra, Caffè Verona, Espresso Roast and Decaf Espresso Roast. They cost around € 3,74 per pack. So, a price of € 0,37 per capsule pricing itself almost at par with Nespresso.

For the Dolce Gusto system, Starbucks offers 6 different tastes: Caramel macchiato, Cappuccino, House Blend Americano, Blonde Espresso, Single Origin Colombia Espresso, Espresso Roast. Each pack contains 12 capsules and costs € 4,49; that's roughly € 0,42 per capsule positioning itself about Dolce Gusto's price range.

These capsules are available in GDO only at Esselunga and online through e-commerce platforms of Dolce Gusto and Esselunga.

Nestlé, through this alliance, cancelled a potential big competitor who could have easily introduced the compatible capsules taking advantage of the existing Nespresso and Dolce Gusto systems.

The alliance might backfire though if this partnership limits the sales of Nespresso and Nescafé Dolce Gusto. This could be avoided by communicating to the consumers a discrete and distinctive difference between the two brands.

8.7 NESPRESSO ON THE BENEFITS LADDER

The Benefits Ladder, derived from Maslow's hierarchy of needs, is a method used for connecting a brand to higher-order emotional benefits of the customer that creates a strong and lasting customer loyalty. It models the mental and emotional process that a customer follows when during his/her product purchase decisions.

Starting with the product's most important features, climbing the benefits ladder, the features are linked to the benefits derived by the customer by using the product. Benefits falls into two categories: Functional and Emotional. While the functional benefits address a customer's, basic tangible needs, the emotional benefits are connected to the intangibles the customer derives from using the product.

Product Attributes: The iconic colourful Nespresso capsules are known for their sleek contours and bright colours. The capsule made of aluminium contain five to six grams of coffee that are sealed hermetically.

The stylish machines are lightweight and have a compact design equipped with an ergonomic handle that allows to extract the perfect cup of coffee.

The capsules are sold in a black, unglazed cardboard sleeve, made to hold ten capsules. These sleeves have been designed to be stylish and each type is distinguished by using different colours at one of the sleeve's ends.

Functional Benefits: The Nespresso system allows anyone to create the perfect cup of coffee, just like a skilled barista in seconds. The convenience and ease of use of the system allows the customer to have a highest-quality coffee in the comfort of one's home.

Nespresso offers a wide variety of coffee that can indulge the customer in full sensory coffee experience. The coffees come in different intensities and origins.

The coffee drinking experience is enhanced and complimented by the tailored customer service available in Boutiques, by phone and Internet.

Emotional Benefits: Using a Nespresso system, the customer indulges in an immersive and sensorial coffee experience rich in aroma and special blends creating a special moment every time when it's prepared.

By being a part of the Nespresso community, the brand make you feel special and exclusive. By drinking a cup of Nespresso that is superior and premium coffee, the consumer embodies elegance, quality, and superior taste.

Aspiration/Social Benefits: By embracing an iconic brand like Nespresso, the customer becomes a part of an exclusive community - a luxury brand that is has customer pleasure in the first place. The customer buys a trendy and innovative product making a style statement.

9 COFFEE EXPERIENCE AT STARBUCKS

Starbucks opened its first location, the largest in Europe, in Piazza Cordusio in Milan. In a historic building that was once the Stock Exchange headquarters and then the Post Office, it's not the typical Starbucks cafeteria that one would have seen in other famous cities, it's one of a kind full immersion coffee experience.

It's Starbucks third Reserve Roastery formula after Seattle and Shanghai. From the coffee roaster at the centre of the building to the gassing chambers, from the copper pipes to the silos, Starbucks creates an immersive multi-sensorial coffee experience.

The sculpture in marble to the roasting machine every detail in the Roastery recalls and reinforces the Italian lifestyle.

Starbucks Premium Roastery offers exotic high-quality Arabic coffee sourced ethically from more than 30 countries. At the bar, the customers get to taste the coffee with different methods of extraction. The taste and intrinsic features of the coffee varies with different modes of extraction. The mixologists and the baristas are present to inform the customers about the roasting process, the extraction process, the quality of the coffee blend and answer any other curiosity that the customer has.

The Roastery has an approach that is transparent in all aspects towards its customers. The customers get a 360-degree visibility to all aspects of coffee that is new and unique to the Italian coffee lovers.

The Reserve Roastery offers 115 coffee-based beverages. An espresso costs around 1,80 euro while a cappuccino costs around 4,50 euros. The Roastery also sells ground coffee. The coffee blend dedicated to Milan by Starbucks costs 9 euros/gram.

From the pricing point of view, the Roastery formula points the affluent middle-class white-collar customers while the Starbucks Cafeteria will capture the adolescent segment of the market.

The Roastery offer more than coffee; The "Arriviamo bar" is completely dedicated to serve the Milan-style aperitif and food that reflects the national cuisine. Starbucks has partnered with the Italian baker Rocco Princi to pair it's products with the bakers fresh and artisanal products. For gelato and sorbeto lovers, the company has decided to partnership with Alberto Marchetti, a famous ice cream company from Turin. The menus have been tailored ad hoc with Italian products and recipes respecting the local cuisine.

Starbucks as an American Coffee company pays homage to the Italian espresso culture through its Reserve Roastery in Milan.

10 COMPETITION IN THE PORTIONED COFFEE SEGMENT

Currently, the portioned coffee is a robust and thriving business, and numerous companies have entered the market in recent years, offering different value propositions. The increase in coffee consumption and growing reputation for coffee, had a strong impact on the coffee market, raising the competition and pushing brands to expand their range of offering.

Companies compete on various value attributes like, for example, the quality of coffee, price of coffee, variety of taste profiles available, ability to easily purchase, style and attractiveness of the machines, ease of use and reliability of the machines, and customer service.

The competition on pricing has resulted in even leading companies taking part with offers and promotions, as they worry about losing market share. The price war, however, can put the quality at risk, which is the real point of reference for this product. The increasing awareness of the consumer on the variety, origin and types of favourite coffee prohibits such a competition.

Some competing companies emphasize on the quality of the coffee and to offer something different from each other, concentrate on alternative lines with single blend, single-source and organic products.

Increasingly, sustainability value propositions and the perceived “responsibility” of the brand and the product have begun to enter in consumer choice. The few companies that compete on the sustainable factors promote their biodegradable or vegetable fibre-based capsules to counter the problem of waste disposal.

The increasing awareness and interest in coffee of the consumers could have a future impact on consumption choice indicating the need for a wider range of blends. The companies must invest in research and developments and better market researches to provide the consumers with a unique range of proposals.

10.1 NESPRESSO IN THE COMPETITIVE PORTIONED COFFEE SEGMENT

Nespresso reigned as the unbeatable leader in the single-serve coffee segment till the arrival of the compatible capsules in the last few years. By 2012, Nespresso started losing its market share in this segment as new players came into the lucrative market where profit margins could be up to 50%. The growth of this market can be mainly linked to the exhaustion of the patents held by Nespresso which allowed competitors to make similar machines and capsules.

While some players were directly competing with Nespresso by producing less expensive capsules that were designed to be compatible with Nespresso machines, some were competing making their separate ecosystems – their own single-serve machines and capsules.

Although Nestlé tried to fightback against some of its competitors through legal actions against the use of its patents, it was in vain. In addition, in 2013, a European regulatory body revoked Nestlé’s patent covering its Nespresso coffee system striking a blow at its efforts to protect Nespresso from its encroaching rivals.

Nespresso in its attempt to fight back, Nespresso started spending heavily on Marketing and R&D, the company’s two strong pillars to develop and adopt measures to sustain its position in the market.

For the purpose of benchmarking, the competitors of Nespresso offering compatible capsules are grouped under the Nespresso system. While the players with their own machines and capsules were grouped as a separate ecosystem.

So, Nespresso faces basically two types of competition:

- 1) Competition from rivals producing compatible capsules exploiting Nespresso’s ecosystems;
- 2) Competition from rivals using their own system of machines and capsules;

SELECTION OF COMPETITORS

For the purpose of this study, four different competitors were selected: Illy, Lavazza, Nestlé Dolce Gusto and Caffé Borbone.

Illy and Lavazza were chosen for this study primarily for the fact that these companies compete with Nespresso in two ways: One, by competing with their own system. For example, Illy has Iperespresso system of machines and capsules and Lavazza had A Modo Mio system of machines and capsules. The second way in which both the companies compete with Nespresso is by producing Nespresso compatible capsules.

Nescafé Dolce Gusto was selected to illustrate how Nespresso strategically differentiates itself from Nescafé Dolce Gusto although both the brands share the same parent company.

Caffé Borbone was selected for this study as an example of a company competing purely on price.

METHODOLOGY

The tool selected for the comparative analysis is the Marketing Mix tool. According to Philip Kotler, widely regarded as the father of Modern Marketing, Marketing Mix is the set of controllable variables that the firm can use to influence the buyer's response. The variables are four and they are known as the Four P's of Marketing. The Four P's stands for Product, Price, Place (Distribution Channels) and Promotions.

10.2 ILLY

Illycaffè is an Italian coffee roasting company founded in Trieste in 1933 by Francesco Illy. The company is known for its one blend, single origin Arabica beans from six different countries, offered in three different roast variations. The company is present in 140 countries and has 259 Illy stores around the world.

Illy had always promoted a coffee culture based on research and innovation. The special blend of Illy coffee packed in steel canisters with Nitrogen, an inert gas, under pressure, to preserve the aroma and quality of the coffee.

Illy offers a wide variety of products to its customers: from ten coffee systems to 6 type of machines, the list is unlimited. Illy serve directly to home clients and to businesses. Apart from its single brand stores, Illy caters to hotels, restaurants, bars, pastry shops, offices and airlines.

Illy calls its loyalty program - Illy Lovers: Illy lovers can take part in a dedicated program based on subscription to have exclusive discounts and other advantages on their orders. The subscription program can be on coffee or on both coffee and machine as a bundle.

The new Nespresso compatible capsule was made possible due to a licensing agreement between Illycaffè and JAB, the global giant in the FMCG sector. Jacobs Douwe Egberts (JDE), under JAB, will be responsible for production and distribution in retail channels outside Italy while Illycaffè will handle the distribution in all other sales channels, as well as all sales channels in Italy.

The illy Lovers subscription program for the coffee is applicable not just on capsules but on all varieties of coffee. To order Nespresso compatible capsules, illy Lovers must order at least 10 packs of capsules while for all the other product, including illy's capsule, Iperespresso, a minimum of 6 packs is necessary. At the end of the check-out, the client is suggested to select from with 4 options to receive the coffee: every 2, 4, 6 or 8 weeks. The shipping is free.

Illy, like Nespresso, offers a subscription plan. First, the customer can select his favorite type of coffee. For a minimum order of 10 packs (100 capsules in total) the shipping is free. The customer then can decide when to receive the capsules: every 2 weeks, every 4 weeks, every 6 weeks or every 8 weeks.

COMPETITIVE ADVANTAGE:

- Strong Brand image known for its high-quality 100% Arabica blend and roasting process;
- Attractive design of its products and machines;
- Highly dedicated in research and development;

COMPARITIVE ANALYSIS		
4 P'S	ILLYCAFFÈ - IPERESPRESSO SYSTEM	NESPRESSO
PRODUCTS	18 CAPSULES PER PACK 20 COFFEE TYPES: BASED ON ORIGIN, INTENSITY ETC	10 CAPSULES PER PACK 28 COFFEE TYPES: BASED ON ORIGIN, INTENSITY, COMBINATION WITH MILK ETC SPECIAL LIMITED EDITION AT TIMES
PRICE	AVG. PRICE = € 0,47 ALL CAPSULES ARE PRICED EQUALLY	AVG. PRICE = € 0,42 MIN = € 0,39 - MAX = € 0,47 SPECIAL EDITIONS ARE PRICED HIGHER
PLACE	SUPERMARKETS ONLINE : E-COMMERCE RETAIL STORES: ILLY CAFFÈ E ILLY SHOP	NESPRESSO BOUTIQUES ONLINE: E-COMMERCE
PROMOTION	TV ADVERTISEMENTS PARTNERSHIPS AND EVENT SPONSORSHIPS	BRAND AMBASSADOR: GEORGE CLOONEY TV ADVERTISEMENTS RADIO

Table 2: Marketing Mix - Iperespresso system and Nespresso system

10.2.1 ILLY COMPATIBLE CAPUSLES - MARKETING MIX

PRODUCTS:

Illy offers a simple format formula: it has four different types of Nespresso compatible capsules based on the intensity of the coffee. Classico Espresso, Intenso Espresso, Forte Espresso and Classico Lungo. All the capsules are in aluminium similar to that of Nespresso.

PLACE:

- Large-Scale retail channel (Supermarkets);
- Illy e-shop (online)
- Retail Stores: Illyshop;

PRICE:

A set of 10 capsules costs 4,30 euros; so, 0,43 per capsule placing itself at par with Nespresso in terms of pricing.

PROMOTION:

Illy launched its new Nespresso compatible capsules with a new ad campaign starring Andrea Bocelli, company's global ambassador from 2017. The company says that Illycaffè is like Andrea Bocelli who has dedicated his life in perfecting his voice to offer his best performance to the world. The company, via its advertisement, reinforces the value of the Illy caffè which through these years through hard work perfected its blends of coffee.

COMPARITIVE ANALYSIS		
4 P'S	ILLYCAFFE	NESPRESSO
PRODUCTS	<p>10 CAPSULES PER PACK</p> <p>4 COFFEE TYPES: BASED ON THE INTENSITY - CLASSICO, INTENSO, ESPRESSO FORTE, CLASSICO LUNGO</p>	<p>10 CAPSULES PER PACK</p> <p>28 COFFEE TYPES: BASED ON ORIGIN, INTENSITY, COMBINATION WITH MILK ETC</p> <p>SPECIAL LIMITED EDITION AT TIMES</p>
PRICE	<p>AVG. PRICE = € 0,43</p> <p>ALL CAPSULES ARE PRICED EQUALLY</p>	<p>AVG. PRICE = € 0,42</p> <p>MIN = € 0,39 - MAX = € 0,47</p> <p>SPECIAL EDITIONS ARE PRICED HIGHER</p>
PLACE	<p>SUPERMARKETS</p> <p>ONLINE: E-COMMERCE</p> <p>RETAIL STORES: ILLY CAFFÈ E ILLY SHOP</p>	<p>NESPRESSO BOUTIQUES</p> <p>ONLINE: E-COMMERCE</p>
PROMOTION	<p>BRAND AMBASSADOR: ANDREA BOCELLI</p> <p>TV ADVERTISEMENTS</p> <p>PRINT AND SOCIAL MEDIA PARTNERSHIPS AND EVENT SPONSORSHIPS</p>	<p>BRAND AMBASSADOR: GEORGE CLOONEY</p> <p>TV ADVERTISEMENTS</p> <p>RADIO</p> <p>PRINT AND SOCIAL MEDIA</p>

Table 3: Marketing Mix - Nespresso compatible illy capsules and Nespresso

In terms of price and quality, Illy stands in par with Nespresso. Illy with its presence in supermarkets and its one-brand stores can promote in-store activations pushing its Nespresso compatible capsules posing a threat to Nespresso eating away a part of its market segment.

Illy has a great potential to grow through innovation and diversification. Just like Nespresso, Illy can create a new gamma of capsules creating a wider portfolio of tastes and blends satisfying the pallets of coffee lovers who like to rotate their coffees quite often.

10.3 NESCAFÉ DOLCE GUSTO

Founded in 1905, Nestlé is one of the largest food companies in the world that sells its products in 190 countries. Nestlé has two big coffee brands: Nespresso and Nescafé.

The Nescafé brand was initially created for soluble coffee, but it was subsequently used as an umbrella brand for several instant coffee products. It has around 10 products under this brand.

The Nescafé Dolce Gusto capsule system was launched in 2006. It produces capsules for 6 major categories: Espresso, Decaffeinated coffee, Lungo, Cappuccino and other milk beverages, Chocolate and tea. The packaging comes in various formats: 12, 16 or 30 capsules per pack.

The Dolce Gusto system offers 7 major varieties of machines: Piccolo XS, Piccolo, Mini Me, Infinissima, Jovia, Stelia and Esperta. They come in different colours and are manufactured by Krups and DeLonghi. They are priced in the range: € 59 - € 139.

Nestlé's new partnership with Starbucks offers Dolce Gusto compatible capsules in 6 different taste blends.

The Dolce Gusto has a patent on its technology for making capsules that ensures the freshness of the coffee and the extraction of aromas when in the machines. Hermetically sealed, the capsules are protected from heat, oxygen exposure and humidity. The exclusive capsule technology allows to adjust the pressure up to 15 bar, to release all the aromas of the coffee beans.

The Dolce Gusto machines are known for their sleek and unique design. They are small and compact and have innovative technology that allows the customer to have the best cup of coffee.

Like Nespresso, Dolce Gusto too has a subscription plan. The customer can decide when to receive the capsules: Every 2 weeks, every month, every two months and every three months. After selecting the frequency, the customer can select the preferred capsules. At least 4 packs must be selected and a discount of 5% is applied on the order from the very first purchase. The shipping is free.

Although in 2010, Portugal became the first country to have a dedicated system for the recycling of the Dolce Gusto capsules with 50 collection points, it is still to be extended to other countries.

COMPETITIVE ADVANTAGE:

- Stylish and compact machines;
- Leverages on the Nestlé brand known globally;
- Unmatched research and development capacities;

10.3.1 NESCAFÈ DOLCE GUSTO CAPSULES - MARKETING MIX

PRODUCTS:

The Dolce Gusto system offers plenty of different types of drinks. They come mainly in 6 categories: Espresso, Decaffeinated Espresso, Lungo, Cappuccino and other milk-based beverages, Tea and Chocolate flavored drinks. The addition to the portfolio is the Starbucks coffee capsules compatible with the Dolce Gusto system.

PLACE:

- Retail: Supermarkets, specialty stores;
- Online: Dedicated E-commerce platform;

PRICE:

The price range is usually € 0,25 and € 0,42 per capsule depending upon the category and number of capsules per pack.

PROMOTION:

In retail stores, the Dolce Gusto capsules quite often in promotions. The discounts online and in retails are basically quantity based.

The online shop offers free shipping always, but it is required to reach a minimum amount of € 30 in the shopping cart. They are usually shipped within 2-5 days depending upon the locality of the customer. The online shop offers exclusive products that are not available in the GDO's.

It's quite evident that Nescafé Dolce Gusto is not competing with Nespresso since both the brands come under Nestlé. Rather with Dolce Gusto, Nestlé tries to capture a different segment of the market.

It's quite interesting to note how Dolce Gusto differentiates itself from Nespresso: Apart from pure coffee, Dolce Gusto offers a wide gamma of beverages both milk-based and non-milk-based. The milk-based beverages contain the milk powder within the capsules as they Dolce Gusto machines doesn't have options to froth the milk while Nespresso offers machines where additional milk can be added. Dolce Gusto systems are much cheaper than Nespresso systems.

COMPARITIVE ANALYSIS		
4 P'S	NESCAFE DOLCE GUSTO	NESPRESSO
PRODUCTS	12,16 OR 30 CAPSULES PER PACK 40 COFFEE TYPES: BASED ON ORIGIN; SPECIALITY IN MILK BASED BEVERAGES: CAPPUCINO, LATTE, GINSENG, NESQUIK ETC	10 CAPSULES PER PACK 28 COFFEE TYPES: BASED ON ORIGIN, INTENSITY, COMBINATION WITH MILK ETC SPECIAL LIMITED EDITION AT TIMES
PRICE	AVG. PRICE = € 0,34 MIN = € 0,25 - MAX = € 0,42	AVG. PRICE = € 0,42 MIN = € 0,39 - MAX = € 0,47 SPECIAL EDITIONS ARE PRICED HIGHER
PLACE	SUPERMARKETS ONLINE: E-COMMERCE	NESPRESSO BOUTIQUES ONLINE : E-COMMERCE
PROMOTION	TV ADVERTISEMENTS PRINT AND SOCIAL MEDIA	BRAND AMBASSADOR: GEORGE CLOONEY TV ADVERTISEMENTS RADIO

Table 4: Marketing Mix - Nescafé Dolce Gusto system and Nespresso system

10.4 LAVAZZA

Founded in Turin in 1895 by Luigi Lavazza, Luigi Lavazza S.p.A. is an Italian manufacturer of coffee products. It was initially run from a small grocery store in Turin which sold dry goods and consumables. The best seller was the coffee, roasted onsite, due to the fine attention to detail and the craftsmanship.

Lavazza imports coffee from all the major coffee growing countries like Brazil, Colombia, Guatemala, Costa Rica, Honduras, Uganda, Indonesia etc.

In 2013, Lavazza was ranked as the world's seventh largest coffee roaster and was the retail market leader in Italy.

Lavazza offers coffee in 6 major categories: Coffee beans, Ground coffee, Soluble coffee, Coffee pods, Lavazza's capsule system and Nespresso compatible systems.

Lavazza's flagship capsule system, known as 'A Modo Mio' offers around 20 different taste blends that can be used in their 8 different coffee machines. Apart from the pack of 6 compostable capsules, Ricco, they usually come in packs of 12, 16 and 36 capsules.

Lavazza caters to both the home clients and the business clients. The professional clients include the hotels, ristoranti, bars and offices. There are also present in the vending machine sector.

Lavazza also offers Nespresso compatible capsules in 7 different versions: Armonico, Deciso, Vigoroso, Delicato, Colombia, Decaffinato Ricco and Ristretto. They come in packs of 10, 30 and 100 capsules. The price of the capsules oscillates between € 0,25 – € 0,30 per capsule.

Lavazza has two subscription plans under the 'Lavazza da te' program: Subscription for the capsules and subscription for the machine.

For the capsules, the consumer can select the frequency with he/she wants to receive the coffee: the possibility to select to receive every 2-16 weeks. Under this plan, the shipping is free, and the e-shop offers a discount of 35% for a minimum buy of 12 packages. In this case, the price per capsule is 0,24 euro.

The subscription plan has a flexible structure; hence, it can be personalized. The frequency of the plan can be modified anytime, the date can be modified, can be put on hold during the holidays, the possibility to choose new coffee blends and to change the shipping address with extra costs.

The subscription plan for the machine is quite similar to that of Nespresso as it has been structured as a bundle: Machine plus capsules. Firstly, the consumer must choose between three coffee

machines: Tiny (69,90 €), Joli Plus (99,90 €) or Idola (149,90 €). Secondly, depending upon the machine selected, the customer must select a suggested number of capsule packs. For example, if I choose the coffee machine Tiny, I will be asked to select at least 7 packs of capsules. During this phase, the customer has the possibility to choose the frequency with which to receive the capsules: every 2-12 weeks. So, at the check-out phase, the consumer will simply pay for the capsules bought and not for machines. The advantage is that of having a new coffee machine completely free of costs.

COMPARITIVE ANALYSIS		
4 P'S	LAVAZZA A MODO MIO	NESPRESSO
PRODUCTS	16, 12, 16 OR 36 CAPSULES PER PACK AROUND 20 COFFEE TYPES: BASED ON ORIGIN, INTENSITY ETC	10 CAPSULES PER PACK 28 COFFEE TYPES: BASED ON ORIGIN, INTENSITY, COMBINATION WITH MILK ETC SPECIAL LIMITED EDITION AT TIMES
PRICE	AVG. PRICE = € 0,39 MIN = € 0,26 - MAX = € 0,42	AVG. PRICE = € 0,42 MIN = € 0,39 - MAX = € 0,47 SPECIAL EDITIONS ARE PRICED HIGHER
PLACE	SUPERMARKETS ONLINE: E-COMMERCE	NESPRESSO BOUTIQUES ONLINE: E-COMMERCE
PROMOTION	TV ADVERTISEMENTS PRINT AND SOCIAL MEDIA PARTNERSHIPS	BRAND AMBASSADOR: GEORGE CLOONEY TV ADVERTISEMENTS RADIO

Table 5: Marketing Mix: Lavazza A Modo Mio system and Nespresso system

COMPETITIVE ADVANTAGE:

- Strong traditional roots and has a global reach;
- Strong presence in retail and in coffee shops:

10.4.1 NESPRESSO COMPATIBLE LAVAZZA CAPSULES - MARKETING MIX

PRODUCT:

Lavazza offers Nespresso compatible capsule in simple formats. Each coffee pack has a different colour an approach similar to that of Nespresso. They major difference is that they come in pack of 30 and 100 too while Nespresso sleeves have only 10 capsules per pack.

PLACE:

- Retail: Supermarkets, specialty stores;
- Online: E-commerce platform;

PROMOTION:

Lavazza depends heavily on print and television advertisements as it is marketed to a mass audience. Lavazza's testimonials had always seen Italian celebrities like Paolo Bonolis, Luca Laurenti, Maurizio Crozza and Pierfrancesco Favino.

The advertisements are quite famous for their artistic and fashion approach. A lot of them feature fashion photography by leading artists.

While some online promotions are based on price discounts, some are based on quantity discounts. In retail, the promotions are mainly based on quantity.

PRICE:

The price of the capsules oscillates between € 0,25 – € 0,33 per capsule. Majority of the capsules are priced lower than Nespresso capsules.

In terms of varieties in Nespresso compatible capsules, Lavazza offers very little. Although it has the potential to compete, Lavazza has decided to offer quantity discounts on its compatible capsules where a pack of 100 compatible capsule is sold at € 0,25 per capsule, thereby competing at a price level.

Lavazza could take advantage of its strong retail presence and sell Nespresso compatible capsules in supermarkets and coffee shops. But in order to do, it must offer more products and good quality coffee.

Lavazza can also use its artistic advertisements and turn them into a narrative, similar to that of Nespresso to sell its capsules.

COMPARITIVE ANALYSIS		
4 P'S	LAVAZZA COMPATIBLE CAPSULE	NESPRESSO
PRODUCTS	10, 30 OR 100 CAPSULES PER PACK 8 COFFEE TYPES: BASED ON THE INTENSITY	10 CAPSULES PER PACK 28 COFFEE TYPES: BASED ON ORIGIN, INTENSITY, COMBINATION WITH MILK ETC SPECIAL LIMITED EDITION AT TIMES
PRICE	AVG. PRICE = € 0,28 MIN = € 0,25 - MAX = € 0,33	AVG. PRICE = € 0,42 MIN = € 0,39 - MAX = € 0,47 SPECIAL EDITIONS ARE PRICED HIGHER
PLACE	ONLINE: E-COMMERCE	NESPRESSO BOUTIQUES ONLINE : E-COMMERCE
PROMOTION	PROMOTIONS RESCTRICTED TO ONLINE	BRAND AMBASSADOR: GEORGE CLOONEY TV ADVERTISEMENTS RADIO

Table 6: Nespresso compatible Lavazza capsules and Nespresso

10.5 CAFFÈ BORBONE

Caffè Borbone is the coffee brand held by the company Aromatika, an Italian coffee producer with headquarters at Caivano, in the Naples region. Born in 1996, Aromatika was born as a coffee roastery and packing company and later in the 2000 launched the Borbone brand. The company initially began by catering to the automatic vending machine sector where it now holds a strong position. It also offers a wide gamma of products in ground coffee, capsules, pods etc. for home and professional clients.

Observing the growing changes in the coffee consumption behavior and growing market for single serve coffee, the company decided to produce compatible capsules and pods. The last few years the company grew at a rate of 40% reaching a 94 million euros in revenue in 2017.

The company, in adapting to the dynamic market, decided to enter in partnership with Italmobiliare. Thanks to its liquidity position and zero-debt, Italmobiliare invested in 140 million euros for 60% of the company leaving 40% to Aromatika. The combination of strategic visions held by Aromatika and business capacities and the investments of Italmobiliare is key for further expansion of the brand nationally and internationally.

Caffè Borbone leverages on its age-old tradition and its Neapolitan roots to capture the market. In April 2019, as a part of its expansion plan and new communication strategy, the company launched an advertisement with Jerry Scotti, a face which is respected and popular in the television and loved by the Italians.

The advertisement has two elements that have been placed very strategically to invite the attention of the consumers. One, the beautiful panorama of Naples in the background. Second, the use of Gerry Scotti, much loved TV personality as the face of the brand. The company plays strategically with the Neapolitan coffee tradition culture to grow its coffee capsule base in Italy and fight with major payer with its compatible capsules.

On the e-commerce website, the capsules are sold on heavy discounts based on quantity.

Free shipping is guaranteed for capsules more 300 capsules. The company offers shipping within 1 working day for major Italian cities. (2 days for the Islands);

10.5.1 CAFFÈ BORBONE COMPATIBLE CAPSULES: MARKETING MIX PRODUCTS:

- Respresso is the name of the compatible Caffè Borbone capsules: They come in five major blends: Blu, Nera, Rossa, Verde, Oro, each different for its intensity.

- A specials brand for the retail GDO: Suprema, Nobile, Decisa and Dek.
- Other varieties include Ginseng, Espresso d'orzo, Cortado caffè macchiato and Tea.

PLACE:

- Retail: Mainly found in supermarkets, specialty stores and discounters;
- Online: E-commerce;

PRICE:

Caffè Borbone prices its capsules almost less than 50% with respect to Nespresso.

PROMOTION:

The company launched its new ad campaign with Gerry Scotti, an Italian Tv personality, a face that is much adored by the Italians. The advertisement emphasis on the beautiful combination of the Caffè Borbone compatible capsules and their respective machines.

Caffè Borbone is the official partner and supplier of coffee for the prestigious Teatro alla Scala, Milan. Through partnerships and other events, the brand is slowly penetrating into the market.

COMPARITIVE ANALYSIS		
4 P'S	CAFFE BORBONE	NESPRESSO
PRODUCTS	50, 100, 200, 300, 400 OR 500 CAPSULES PER PACK 5 COFFEE TYPES: BASED ON THE INTENSITY FEW OTHER VARIETIES: GINSENG AND TEA	10 CAPSULES PER PACK 28 COFFEE TYPES: BASED ON ORIGIN, INTENSITY, COMBINATION WITH MILK ETC SPECIAL LIMITED EDITION AT TIMES
PRICE	AVG. PRICE = € 0,20 MIN = € 0,164 - MAX = € 0,23	AVG. PRICE = € 0,42 MIN = € 0,39 - MAX = € 0,47 SPECIAL EDITIONS ARE PRICED HIGHER
PLACE	SUPERMARKETS ONLINE: E-COMMERCE	NESPRESSO BOUTIQUES ONLINE: E-COMMERCE
PROMOTION	BRAND AMBASSADOR: GERRY SCOTTI TV ADVERTISEMENTS PRINT AND SOCIAL MEDIA PARTNERSHIPS	BRAND AMBASSADOR: GEORGE CLOONEY TV ADVERTISEMENTS RADIO

Table 7: Marketing Mix - Nespresso compatible Caffè Borbone capsules and Nespresso

Caffé Borbone plays a pure price-based competition. In fact, it is priced at almost 50% less than the Nespresso capsules. The promotions are all majorly quantity based. It is one of the lowest priced capsules in the market. The brand would only attract the price sensitive segment.

Although new in the retail sector, Caffé Borbone leverages on its new advertisement to sell its capsules to the mass market.

11 OVERVIEW - PRICE PER CAPSULE ANALYSIS

Here is an overview of the price per capsule comparison of Nespresso with the other major players in the sector.

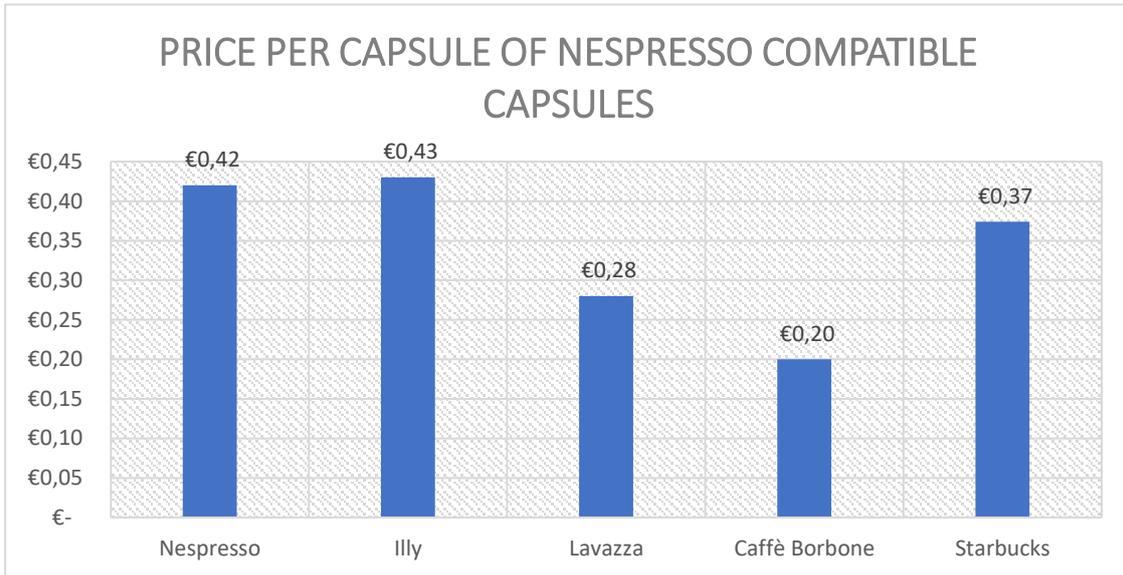


Figure 2: Price per capsule for Nespresso compatible capsules

Illy and Nespresso are in the same price range followed by Starbucks and Lavazza. Clearly, Caffè Borbone offers the cheapest Nespresso compatible capsules among the competitors examined.

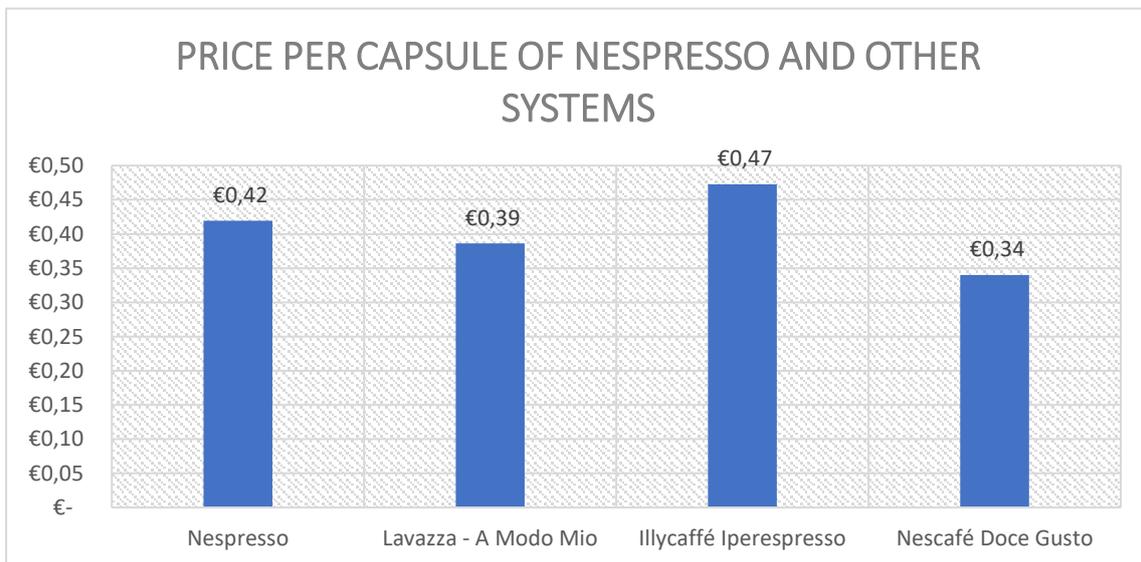


Figure 3: Price per capsule of Nespresso and other systems

In the case of individual ecosystems of capsules and machines, Illy stands out as slightly costlier than Nespresso. Nespresso is followed by Lavazza and Lavazza in turn by Nescafé Dolce Gusto. Nestlé's brand positioning strategy is quite evident from the price per capsule difference of Nespresso and Dolce Gusto.

11.1 SEGMENTATION OF THE MARKET

Based on the price per capsule analysis performed earlier, in the Nespresso ecosystem of original Nespresso capsules and compatible capsules, the players examined can be segmented in the following way:

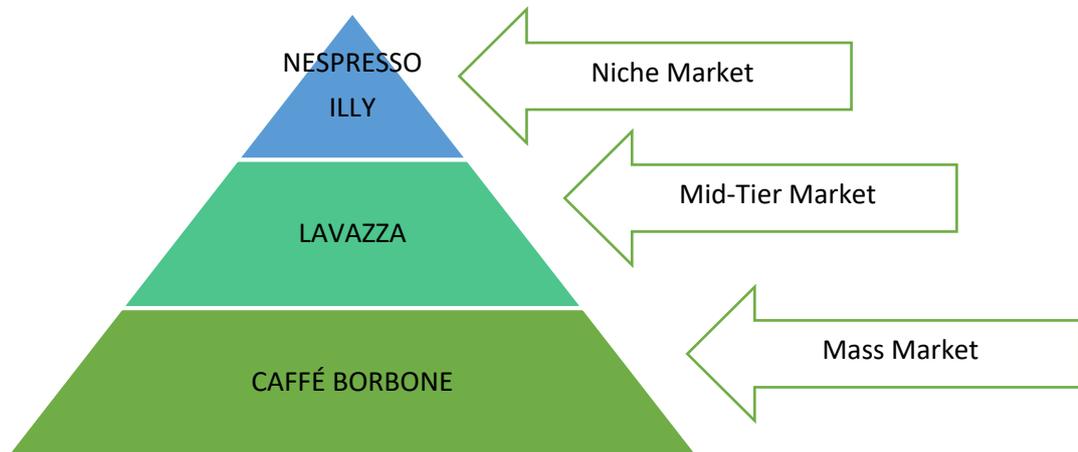


Figure 4 Market Segmentation of compatible capsules

Nespresso and Illy are at par and concentrate on the niche segment of the market. They are followed by Nescafé Dolce Gusto and Lavazza who occupy the mid-tier segment offering capsules at an affordable price range. Finally, Caffé Borbone offers the cheapest single-serve Nespresso compatible capsules focusing on the price-sensitive segment of the market.

In a competition context where Nespresso competes with other systems, the players examined occupied the following segments in the market:

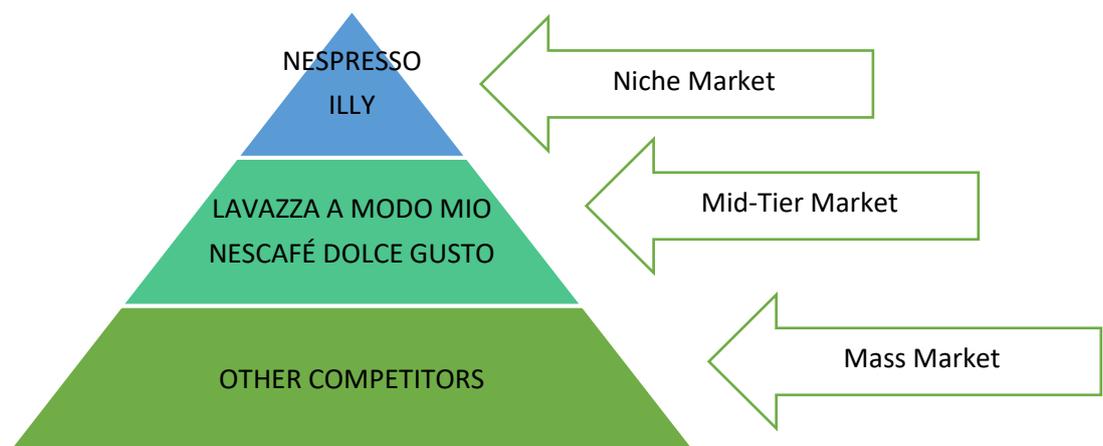


Figure 5: Market segmentation by Nespresso and other systems

Still in this scenario, Nespresso and Illy caters to the niche segment. While Nescafé Dolce Gusto and Lavazza with their own versions compete in the mid-tier segment.

12 SUBSCRIPTION MODEL ANALYSIS

The objective of this analysis is to find out how much the company is ready to invest on its clients for fidelity with the subscription plan. I have chosen the Machine and Capsule subscription plan for the analysis.

The analysis is basically a comparison between two scenarios: the value of the bundle with the subscription plan and without the subscription plan. For the simplicity of comparing, certain assumptions have been made and the basic circumstances of purchase have been unaltered in both the scenarios.

To a customer, following a subscription plan obviously bring in a benefit in terms of difference of money spent on the bundle. But this difference does not translate into loss for the company due to the high margins. Rather it is an investment the company is ready to cash in for the fidelity of the customers.

All subscription plans have rules and regulations. The plans have usually a time period or in some cases a minimum threshold of purchase that the customer must adhere to avoid a heavy cost of cancellation.

12.1 NESPRESSO EASY SUBSCRIPTION PROGRAM

For the purpose of analysis have selected the basic model of machine Easy Essenza Mini. The machine which normally costs € 99 is given for free under the plan. With a credit of € 25, the client will be able to drink 1-2 coffees a day.

The value of the plan is € 300 due to the credit that will be deposited the client's Nespresso profile. The credit can be accumulated and can be used in a different point of time. If the client decides to cancel the subscription before the 12-month period, a cancellation fee will be applied.

MONTH	1	2	3	4	5	6	7	8	9	10	11	12	TOT
MACHINE	€ 0,00	€ 0,00	€ 0,00	€ 0,00	€ 0,00	€ 0,00	€ 0,00	€ 0,00	€ 0,00	€ 0,00	€ 0,00	€ 0,00	€ 0,00
CREDIT	€ 25,00	€ 25,00	€ 25,00	€ 25,00	€ 25,00	€ 25,00	€ 25,00	€ 25,00	€ 25,00	€ 25,00	€ 25,00	€ 25,00	€ 300,00
												TOT	€ 300,00

Table 8: Value for the customer with the subscription plan

If a customer were to buy the same machines and has the same coffee consumption pattern as before wherein, he spends only € 25 a month, simulating a non-subscription scenario, the same components would cost € 399 for the customer.

MONTH	1	2	3	4	5	6	7	8	9	10	11	12	TOT
MACHINE	8,25	8,25	8,25	8,25	8,25	8,25	8,25	8,25	8,25	8,25	8,25	8,25	€ 99,00
CREDIT	€ 25,00	€ 25,00	€ 25,00	€ 25,00	€ 25,00	€ 25,00	€ 25,00	€ 25,00	€ 25,00	€ 25,00	€ 25,00	€ 25,00	€ 300,00
												TOT	€ 399,00

Table 9: Value for the customer without the subscription plan

Although it seems that the Nespresso seems to lose € 99 per client with the subscription, it must rather be considered as an investment that the company does on the client's fidelity. The subscription model is a fightback against the growing Nespresso compatible capsules.

What happens after the 12-month period is what matters. Are the clients still buying Nespresso Capsules or the compatible ones?

While both the plans, the Machine and the capsule, have been curated to capture and lock-in its customers, the loc-in features fail the moment in which the customer buys a Nespresso compatible capsules. The cancellation fee serves this purpose during this 12-month period. Once this period is over the client is no longer obliged to stay with Nespresso.

Nespresso must work and develop strategies and promotional activities that retain the current customer blocking them from leaving the Nespresso ecosystem. Nespresso has around 13 models of coffee machines. But the subscription offers only three models. This limited choice of machines could be a seen as a problem.

12.2 ILLY LOVERS - SUBSCRIPTION PLAN

For the analysis, I have selected the basic model - Y3 - Macchina da Caffè Iperespresso which costs € 29,00 under the plan. The cost of machine normally would have been € 89,00.

For the plan to conclude, the customer must buy at least 18 packs of capsules. For the sake of simplicity, I have assumed that the customer places an order of 6 packs and he places a total of 3 orders. The shipping is free for every reorder

COST OF THE MACHINE WITHOUT THE PLAN	€ 89,00
COST OF THE MACHINE WITH THE PLAN	€ 29,00
DISCOUNT ON THE MACHINE	32,58%
MINIMUM NUMBER OF PACKS TO BE PURCHASED PER ORDER	6
COST OF 1 PACK	€ 8,50
COST OF 6 PACKS	€ 51,00
COST OF 18 PACKS (SUBSCRIPTION CLOSURE)	€ 153,00
VALUE OF THE PURCHASE UNDER THE PLAN	€ 182,00
COST OF SHIPPING	€ 5,00
COST OF SHIPPING 6 PACKS IN THREE TIMES	€ 168,00
VALUE OF THE PURCHASE WITHOUT THE PLAN	€ 257,00
DELTA	€ 75,00

Table 10: Value for the customer with and without the subscription plan

Under the same circumstances but without the subscription plan, the client has to pay a shipping cost of € 5 for every order since the shipping is free only for above € 80.

Unlike Nespresso, with the subscription plan, illy offers the machine for a small fee and not completely free. As per the analysis, under the subscription plan, Illy invests € 75 per client for client fidelity.

12.3 LAVAZZA DA TE! SUBSCRIPTION PLAN

For the analysis, I have selected the basic model called Tiny. It costs € 69 without the subscription plan. Like Nespresso, the machine is given away free of cost under the plan.

The customer must select at least 7 packs to proceed with the purchase. For the sake of simplicity, I have chosen a pack of 12 capsules that costs € 4,99. So, an order of 7 packs would cost € 34,93. The closure of contract requires the client to buy 7 packs in 7 orders, free of shipping for every reorder. The client is at liberty to change the frequency at the order quantity but for the calculation purpose, let's assume 7 packs in 7 different orders.

COST OF THE MACHINE WITHOUT THE PLAN	€ 69,00
COST OF THE MACHINE WITH THE PLAN	€ -
MINIMUM NUMBER OF PACKS TO BE PURCHASED PER ORDER	7
COST OF 1 PACK	€ 4,99
COST OF 7 PACKS	€ 34,93
COST OF 49 PACKS (SUBSCRIPTION CLOSURE)	€ 244,51
VALUE OF THE PURCHASE UNDER THE PLAN	€ 244,51
COST OF SHIPPING	€ 5,99
COST OF SHIPPING 7 PACKS IN 7 TIMES	€ 286,44
VALUE OF THE PURCHASE WITHOUT THE PLAN	€ 355,44
DELTA	€ 110,93

Table 11: Value for the customer with and without the subscription plan

Under the same conditions, if the customer is to order the capsules without the subscription plan, it would cost him € 5,99 per order as shipping is free only for orders above € 46.

Lavazza has decided to invest on € 110,93 for the fidelity of its clients.

13 AN ECO-SUSTAINABLE APPROACH TOWARD A CUP OF COFFEE

A global survey conducted by Nielsen in 2017, Women and Diversity [6], showed the growing affinity of consumers towards companies that promote sustainable products and transparent in their ecological approach. The study showed clearly the propensity of the Italian consumers to buy ecological products – 70% interviewed were influenced by the eco-sustainable products. Almost 72% preferred products produced by companies that supported environmental cause.

The use of aluminium to make the coffee capsules has always been a topic of environmental debates. In this day and age where we face serious environmental issues due to pollution and poor waste management, the dependency on aluminium for making coffee capsules has attracted some critics as they are considered as an environmental menace.

Critics claim that the single serve capsules cause unnecessary consumption of resources creating tons of polluting aluminium waste. The complexity of recycling can be attributed to two main reasons. Firstly, some capsules are not entirely made of aluminium; some are made from a combination of plastic and aluminium. Secondly, the coffee residue sitting in the bottom of the capsules makes it difficult to process in a normal recycling plant.

Nespresso sustains that the use of aluminium for making the capsules has many benefits. The coffee is protected from the outside – from the exposure to oxygen, moisture in the air and light. It's light weight and infinitely recyclable. However, aluminium does not act just as a protective barrier but as a barrier that trap and capture the freshness of the aromas and the flavours of the coffee.

Given the environmental impact, in the last few years, Nespresso had launched its own recycling program. To highlight the vital and growing importance of sustainability, Nespresso's recycling program picks up used capsules for reuse. To do so, the company must offer clients convenient recycling solutions and improve its recycling rate. In fact, the company has opened collection points, convenient courier and postal services around the world. To have better efficiency, the company must work closely with the local authorities as waste disposal rules vary from region to region.

Nespresso claims that the recycled capsules are later used in making car engines, bicycles, new capsules etc. Since Nespresso uses a special grade aluminium to make its capsules, the recycled Nespresso capsules are used to make new capsules. This definitely has a less impact of the environment and this not only reduces the waste produced but would cut down the amount of resources used.

In addition, the residual coffee is used to create a rich compost. In 2018, Nespresso in collaboration with Banco Alimentare, Lombardy decided to take a step towards sustainability. The residual coffee

from the capsules were used as an organic fertilizer to cultivate rice in the Pavia region. The rice produced was later donated to Banco Alimentare. By being accountable, Nespresso reaffirmed its position as a responsible coffee-capsule producing company with a sustainable approach to it.

13.1 SUSTAINABLE APPROACH BY THE COMPETITORS

Caffè Vergnano is an Italian coffee producer from the Piedmont region, the very first company to launch compostable capsules on the market.

With the objective of offering coffee in a sustainable capsule and reducing non-recyclable waste, Caffè Vergnano, developed compostable capsules that can be thrown directly into the organic waste bin. This means less waste produced and less resources to be employed for the separation of capsule from coffee residue later in the recycling process.

These biodegradable capsules are made from biopolymers that break down naturally in compost. The biopolymers also guarantee an efficient performance during the coffee extraction even during high temperature and pressure.

They have been certified 'OK COMPOST' by Vincotte, a renowned organization at international level. Not only is it biodegradable but it is made, in part, from renewable sources.

The decision made by Caffè Vergnano was not just to launch a compostable product and leave the old product still on the supermarket cupboards, but to substitute all its capsules line with this new green option.

These compostable capsules are compatible with Nespresso machines. For the green-conscious coffee drinkers, these capsules might be seen as an alternative to Nespresso capsules.

Covim is another Italian company from the Genova region that produces Ground coffee, capsules and pods. In addition to the Nespresso compatible coffee capsules, Covim Pressò, the company has launched a Nespresso compatible compostable capsule line called Covim Pressò Organic and Compostable.

All the other companies producing capsules (own or Nespresso compatible) rely heavily on plastic. According some critics, plastic might not offer the same hermetic conservation similar to that of aluminium. Hence, to give a better protection and preserve the aroma and flavours of the coffee, the producers must use an extra layer of plastic. This would possibly lead to huge environmental impact due to the quality of plastic used in a single serve coffee capsule.

Another option that many companies use today, are pods that are made of a biodegradable filter paper-E.S.E pods. Although not a direct threat to capsules, due to their biodegradable nature and their

ecological nature, they can pose a challenge. All major competitors produce these ecological pods. Nespresso sustains that the porous nature of such materials does not allow to conserve the aromas and flavours of the coffee. Hence, is not considered as a plausible solution to capsules.

14 E-COMMERCE

A successful e-commerce website generates both traffic and sales. Consequently, it is a customer-centric approach to design that is salient to such platforms.

Generally, an e-commerce platform can be judged from two perspectives: Aesthetics of the platform and Service offered by the platform. Both are relevant and not mutually exclusive.

A fluid and intuitive web design is a good indicator of a profitable e-shop. A tidy and pleasant interface is crucial. A clean space means a distraction free environment without a lot of pop-ups and advertisements diverting too much the attention of the customer. Although it's not the presentation or the look of the website that matters the most, it is definitely an important factor that helps capture the customer's attention.

A simple web design indicates that a customer can find what they need quickly and easily. The menu and the product categories must be clearly visible and easily navigable; Hence, it should not be hidden away. The more time a consumer has to spend to find the information, it's highly likely that they won't stay long. This means a higher bounce rate.

All the important offers and information that the company wants to push to the customer must be visible on the page or must be communicated through pop-ups.

The money-making part of the whole process is the checkout phase. This phase must be the least complicated of the all as complexity at this stage would lead to a high cart abandonment rate. The curators of the website must make sure that the whole process is intuitive and not confusing. Ideally the checkout phase should not contain advertisements and must contain all information in one page.

Additionally, the online platform can offer engaging content to the customers: Leveraging on this, this company can attract strong online presence for the brand on social media. These factors are quite important in this digital era as they play a vital role in driving traffic and sales.

The services offered through the e-commerce platform must be at least at par or should offer more than a brands retail presence. A lot of times e-commerce is selected for its flexibility: the possibility of purchasing anytime in the comfort of one's home. People who don't have much time for shopping could use e-commerce to save time.

14.1 NESPRESSO'S E-COMMERCE PLATFORM

Recreating the unique coffee experience provided by the boutiques, online is not an easy task. Yet Nespresso has emerged successfully with its digital presence creating a platform where coffee lovers get a personalized experience through the vast gamma of services that Nespresso offers them.

The digital platform recreates the boutique experience in many ways. The muted color palette and the black background along with subtle color enriches the interface.

One of the biggest disadvantages of an e-commerce website is the absence of sales representatives. But Nespresso compensates this by providing a dedicated customer care service through Coffee Specialist. Consumers buying online can talk to these specialists who offer them 24/7 assistance. They answer any doubts regarding coffee, machines and/or services provided by the company.

The website has an easy to navigate interface. The website automatically suggests the customer his/her favorite coffee. It offers the customer an opportunity to try out a new coffee arrival.

14.2 SERVICES OFFERED BY NESPRESSO

Nespresso offers its members four different and personalized delivery options that can be selected according his/her convenience:

- Standard Delivery: This is the standard delivery option where a client ordering before 7 P.M from Monday to Friday receive their coffee within two working days from placing the order. For islands and distant destinations, it might take about three days to deliver. This service is provided free of charge.
- Boutique Pick-Up: Using this service, a Nespresso member can place an order that can be collected from his/her nearest Boutique. The order will be ready in two hours. This service is provided free of charge.
- Pick-up point (Nespresso Proximity): The customer can place order to be collected from a pick-up point of his choice within two working days (three in case of Islands and distant locations). This service is provided free of charge. The service is mainly chosen by clients who are not at home to receive the order. Nespresso offers three different options:
 - TNT points
 - Postal office (SDA)
 - Newsstand (Edicola)
- Nespresso Your Time (Consegna in Fascia Oraria): This premium service allows you to receive your coffee order during the day, in the evening or in the weekend choosing a 2-hour slot that is convenient to you. This service is currently available only in Milan and Hinterland.

Other than the website, the orders can be placed using the App or via the toll-free number available 24 hours a day, 7 days a week or by going directly to a Boutique.

Nespresso N-point is another way a customer can buy his/her capsules. N-points are electronic terminals located inside partner shops (for example Mediaworld and Unieuro) where the customer can place and collect his/her order independently.

A Nespresso member can avail the Recurring Order service where he/she can set his account for automatic and frequent replenishment of capsules at the address selected. The scope of the service is not to let the customer remain without the capsules

15 FUTURE OF NESPRESSO

The demand for the capsules is growing steadily. Companies must invest in research and innovation to deliver new experiences to the customer. They must provide more varieties. Since the market is slowly being saturated, it is quite important that the customer is able to buy it anywhere and anytime. Consumers are more conscious and aware of the sustainability of the product.

Nespresso is a brand that screams luxury. In addition to the premium coffee, luxury and premiumization can be seen in the services offered and in every aspects of its key activities. The company must not enter into a price war with the other competitors or produce compatible capsules. This would jeopardize the brand's identity and probably the quality of its products and services. *Born luxurious, stay luxurious!*

Nespresso is a brand synonymous with innovation. The brand must invest in R&D and bring new capsule blends that deliver new coffee experiences to the customers. The company must perform continuous market researches and surveys to understand the growing and changing requirements of the consumers. Innovations must not just be restricted to capsules but also to the services.

15.1 OMNICHANNEL STRATEGY

Though various definitions and interpretations can be found on Internet, the best way of defining omnichannel strategy in this context is the following: A unified approach to marketing and selling a product (and/or a service) to a customer creating a cohesive and integrated customer experience. The idea is to reach out to the customer no matter where he is, on a phone, from a desktop or a brick and mortar store providing the same experience in an integrated approach.

In an age where customer experience is, they keyword, omni-channel strategy is the solution. Since the assumption of this strategy is that customers move between the different channels offered by the company, the success of this technique lies in offering a seamless transition, when switching channels, creating the best customer experience.

Companies providing an omni-channel experience must align their core objectives, messages, strategies and even design across each channel delivering the customer a seamless integrated experience. Lining up coherently the salient factors, companies will be able to communicate a consistent and effective brand image.

Hence, the three factors that contribute to creating an omni-channel centric company are the following:

- Seamless and integrated channels
- Cohesive and consistent content through the channels
- Channels engaging in customer experience

Internally what a company must do in order to deliver an omni-channel experience, is to ensure that all the departments are on board with the main objectives. A consistent message must be portrayed to the customer to ensure the success of this strategy.

To focus on customer experience, companies must understand the customer's behaviors, demographic data purchase frequencies etc. Data collection is very important here. The company must be able to collect and connect the data coming from the different channels, Data unification would undoubtedly be the biggest success and challenge of omnichannel strategy.

Providing what a customer wants in whichever channel preferred by him is ensure the success of this strategy.

15.2 OMNI-CHANNEL STRATEGY FOR NESPRESSO

Omni-channel strategy is the right direction for Nespresso. Nespresso's e-commerce platform has succeeded in mirroring the boutique experience as one of the best retail experiences available in the industry. This results in the seamless transitions of channels.

Using the power of data collection and unification, the company can leverage on customer information – from online orders or boutique orders- aggregating them under a single customer profile enabling the brand to make suggestions and recommendations for cross-platform sells and up-sells. The same data can be used to send targeted marketing ads and offers that better suits each customer. In this way, a Nespresso Club member can always experience a targeted and personalized service across all Nespresso channels. Personalized service, from the customer's point of view, translates into 'personal attention'. This ensures that Nespresso can cater to each customer, remembering past coffee orders and favorite coffee, tailoring each service according to the customer's style.

A client who regularly buys a certain type of capsule online, let's say for example Arpeggio, could be offered the same coffee if he visits a Nespresso Boutique. This customization can enhance the client's experience. The data collected from his past online purchase could allow the Coffee Specialist at the boutique to better cater the customer.

A club member who shows interest in trying out new coffee can be offered an exclusive tasting opportunity at a nearby boutique.

To serve clients who are not frequent online buyers, Nespresso can leverage its online presence to communicate messages and offers that reinforce the brand image, that in turn would drive customer to visit a nearby Boutique.

Exclusive deals can be given offered to members who prefer to buy online. This is all made possible due to the holistic and comprehensive picture of the customer that Nespresso has gained through data unification.

16 BUSINESS CANVAS MODEL ANALYSIS: FINDING GAPS

Conclusions made in my thesis were drawn from a meticulous analysis of the various business models of the competitors using the Business Canvas Model. The comparison of Nespresso's business canvas model with the rivals' business canvas model made it easy to spot the gaps in the market that Nespresso could exploit to both fightback at its competitors and increase its sales.

In the following section, I have analysed the business canvas models of the following players: illy, Starbucks, Caffé Vergnano, Lavazza and Nescafé Dolce Gusto.

Since the analysis is quite long and descriptive, I have summarized my findings in a tabular form for an easy reading.

16.1 BUSINESS MODEL CANVAS - ILLY

KEY PARTNERS PARTNERSHIP WITH PREMIUM FOOD PRODUCTS: CHOCOLATE, WINE, TEA COCO-COLA PUBLIC EVENTS COFFEE MACHINE MAKERS ARTISTS AND DESIGNERS	KEY ACTIVITIES RESEARCH & INNOVATION PRODUCTION MARKETING FRANCHISING KEY RESOURCES COFFEE LABORATORIES PRODUCTION FACILITIES BRANDING COFFEE CHAINS	VALUE PROPOSITION 100% ARABICA PREMIUM COFFEE MACHINES AND ACCESSORIES: ARTISTIC AND INNOVATIVE DESIGN READY-TO-DRINK PRODUCTS ART AND COFFEE EXPERIENCE COFFEE UNIVERSITY	CUSTOMER RELATIONSHIPS ILLY MEMBERSHIP - ILLY LOVERS CUSTOMER CARE CHANNELS LARGE SCALE RETAIL FLAGSHIP STORES COFFEE SHOPS ONLINE: PC	CUSTOMER SEGMENTS B2C: HOUSEHOLD CLIENTS B2B: BUSINESS AND OFFICE CLIENTS
COST STRUCTURE PRODUCTION RESEARCH AND DEVELOPEMENT MARKETING DISTRIBUTION NETWORK		REVENUE STREAMS COFFEE BLENDS REPETITIVE SALE OF CAPULES COFFEE MACHINES ACCESSORIES		

Table 12: Business Model Canvas for illy

1. Customer Segments:

Illy serves two major customer segments: B2C (Business to Client) and B2B (Business to Business).

- B2C clients: Household clients who are willing to pay a premium price for coffee and complementary products:
 - Coffee blends for who prefers the traditional moka;
 - Capsule systems: Both original and compatible;
 - Ready-to-drink coffee beverages: “chilled espresso” varieties;
 - Illy art collections: Artistic canisters and coffee cups;

- B2B clients:
 - Big companies and offices;
 - Premium Hospitality Sector: Ho.Re.Ca
 - Trenitalia;
 - Airports and museums;

2. Value proposition:

- 100% Arabic Premium Coffee: Illy sells a unique blend of premium quality coffee consisting of 100% Arabica coffee from 9 different sources.

- Machines and Accessories: Illy has coffee machines for all types of coffees: Capsules, ground coffee and coffee pods. Designed by artists and designers, Illy’s coffee machines are unique and technologically advanced. Illy has produces beautifully crafted artistic cups.

- Ready-To-Drink Products: In partnership with Coca-Cola, Illy entered the Ready-to-Drink category making chilled coffee beverages.

- Art and Coffee experience: Illy has been a brand that has been associated with the world of art. In fact, Illy offers its customer a collection of cups and canisters with art on them in an effort to capture its customers through experiential marketing rather than the traditional one.

- Coffee university: Established in 1999, the 'Università del Caffé offers programs and courses that have been formulated to address different levels of specialized profiles and are dedicated to training selected coffee growers and retail staff as well as consumers.

3. Channels:

- Large Scale Retail: All Illy products are available easily in supermarkets.
- Flagship Stores: They are concept stores found in the hearts of big cities that transforms as a meeting place for both coffee and art enthusiasts. The stores offer pastries, light lunches and other gourmet dishes for the clients.
- Online: Illy also sells its products through its online platform. The e-commerce website functions also a principal form of communication where customer get to know more about the brand and its initiatives. Online coffee buys can also sign up for the subscription program.
- Coffee shops: Illy coffee can be found at many coffee shops throughout the world.

4. Customer relationships:

Illy has a subscription program called Illy Lovers for its online clients. The clients can buy any coffee products or machines and select a subscription model that best suits them. Clients are also offered gifts and other complementary products online.

5. Revenue Stream:

Illy makes revenue by selling its best quality coffee at a premium price. As per Illy, the premium pricing is compensated by high-quality products and innovation gone into making them.

Like any other capsule selling company, Illy makes revenue from the recurring sales of its coffee capsules and one-time sale of its machines.

6. Key Resources:

- Production Facilities: The only production facility is in Italy is in Trieste.

- Coffee Laboratories: The company is constantly at the forefront in the research and development of innovative technological solutions thanks to its R&D Department. The company has 5 labs, each dedicated to study the various aspects of coffee and its consumptions: Aromalab, Sensorylab, Biolab, Techlab and Food Sciencelab.
- Branding: Illy has been placed a luxury brand known for its premium quality coffee
- Coffee Chains: Thanks to its extensive distribution network, illy caffè can be enjoyed in all major cities and important places.

7. Key Activities:

- Research and Innovation: The brand is synonymous for its scientific and technological approach. The company over the years have developed around eight radical innovations. For example, the pressurization of cans with inert gas to maintain the freshness and aroma of the coffee. Illy has a patented system for the digital sorting of coffee beans which allows the company to pick only perfectly ripe beans. The Iperspresso capsule system extracts coffee in two phases giving rise to a unique qualitative result and an extraordinary rich and velvety crema.
- Production: The production facility in Trieste caters to the worldwide demand of illy products.
- Marketing: All advertising campaigns by illy were based on art and culture. Andrea Bocelli is illy's global brand ambassador. The brand invests on print and television advertisements.

8. Key Partnerships:

Apart from illycaffè, The Illy group has other brands under its umbrella:

- Domori, a manufacturer of high-quality chocolate products;
- Dammann Frères, a specialist tea dealer;
- Mastrojanni, a wine brand from Montalcino in Tuscany;
- Agrimontana, a high-end pastry producer;

The company in partnership with Coca-Cola has entered into the Ready-to-Drink category by producing chilled espresso beverages.

Illy coffee machines and cups are examples of artistic excellence. This was made possible through the collaboration of renowned artists and designers. Some machines sold by Illy are manufactured by De'Longhi.

Illy has sponsored and participated in numerous public events bringing the brand closer to its consumers.

9. Cost structure:

Illy's cost structure can mainly be attributed to four factors: Production, Marketing, Research and Development and the Distribution network – all critical for the growth and the diffusion of the brand.

16.2 BUSINESS MODEL CANVAS - STARBUCKS

KEY PARTNERS NESTLÈ ROCCO PRINCI ALBERTO MARCHETTI	KEY ACTIVITIES PRODUCTION EMPLOYEE TRAINING	VALUE PROPOSITION HIGHEST-QUALITY PREMIUM COFFEE EASY TO-GO COFFEE CUSTOMER INTERACTIONS PLACE TO RELAX AND HANG OUT ROASTERY: 360 DEGREE COFFEE EXPERIENCE	CUSTOMER RELATIONSHIPS BARISTAS “PARTNERS”	CUSTOMER SEGMENTS B2C: ADULTS AND TEENAGERS
	KEY RESOURCES PRODUCTION PLANTS EMPLOYEES		CHANNELS COFFEE SHOPS RESERVE ROASTERY RETAIL: ESSELUNGA ONLINE: DOLCE GUSTO AND ESSELUNGA FOR NESPRESSO	
COST STRUCTURE RETAIL EXPANSION EMPLOYEES		REVENUE STREAMS COFFEE SHOP SALES ROYALTIES FROM CAPSULE SALES		

Table 13: Business Model Canvas for Starbucks

1. Customer Segments:

In Italy, Starbucks at the moment serves only one customer segment: B2C (Business to Client). The clients include teenagers and adults.

2. Value proposition:

Since Starbucks is able to control large parts of its supply chain, the company is able to offer the best-quality coffee pricing itself at a premium position.

For the dynamic segment of the society, teenagers and businessmen, Starbucks will become the brand that they carry around on paper cups.

Starbucks provides an upscale yet inviting atmosphere for people to stay around and enjoy their coffee. They can also use wi-fi to listen to music or work.

The Reserve Roastery is a premium upscale coffee-centric concept store introduced by Starbucks. IT offers a premium coffee experience where people can watch coffee beans being roasted and learn about the different brewing techniques from the baristas and roasters.

3. Channels:

Starbucks are sold directly to the customers through their coffee shops: cafeterias and Reserve Roastery. Apart from enjoying a cup of coffee, customer can also buy coffee from the Roastery.

Starbucks capsules are exclusively available at Esselunga. The Italian supermarket giant sells both Nespresso compatible and Nestlé Dolce Gusto Compatible capsules carrying Starbucks coffee.

They coffee capsules are available online on two platforms: Esselunga's e-commerce and on Nescafé Dolce Gusto's e-shop.

4. Customer relationships:

Starbucks calls their employees "partners since they believe that partner satisfaction leads to customer satisfaction. The customer facing part of Starbucks is done by the mixologist and baristas. The

mixologists and the baristas are present to inform the customers about the roasting process, the extraction process, the quality of the coffee blend and answer any other curiosity that the customer has.

5. Revenue Stream:

Starbucks makes most of its money by selling coffee and other products at its stores.

It gets part of its revenues through royalties. Nestlé pays a royalty to Starbucks for selling a variety of Starbucks products outside its coffee shops.

6. Key Resources:

The baristas and other employees working at the coffee shops and at the Roastery are critical for the functioning of the shops.

The Nespresso compatible capsules are produced in collaboration with Nestlé at the Nespresso plants in Switzerland.

7. Key Activities:

Starbucks manages every aspects of the supply chain from growing of coffee beans to roasting of coffee beans. Starbucks works together with the farmers and international organizations to implement best coffee growing practices to ethical source its coffees.

Since employees are critical resources of Starbucks, employee training is an important activity for the company.

8. Key Partnerships:

The licensing agreement with Nestlé. will help to unlock the Starbuck's global expansion in grocery and foodservice utilizing Nestlé's global reach. Starbuck will be able to capitalize on Nestlé's coffee experience and system know-how to enhance it product offering to the global coffee lovers.

The Reserve Roastery at Milan has partnered with Italian baker Rocco Princi and the Italian gelato company from Turin, Alberto Marchetti to provide a complete gourmet experience to its elite customers.

9. Cost structure:

The cost structure of Starbucks can be attributed to its retail expansion in the territory. The Reserve Roastery at Milan is situated in a premium location in a historic building. The cafeterias are usually found in strategic locations in the city centres.

The cost for hiring employees, from barista to managers, is also enormous.

**16.3 BUSINESS MODEL CANVAS – NESCAFÈ
DOLCE GUSTO**

KEY PARTNERS COFFEE MACHINE MAKERS: KRUPS E DE'LONGHI	KEY ACTIVITIES PRODUCTION TECHNOLOGY AND INNOVATION MARKETING	VALUE PROPOSITION MILK-BASED BEVERAGES SPECIALITY DRINKS: HOT AND COLD MACHINES: UNIQUE AND ATTRACTIVE DESIGN, TECHNOLOGICALLY INNOVATIVE	CUSTOMER RELATIONSHIPS APP: 'PREMIO' LOYALTY PROGRAM WEBSITE CALL-CENTER: CLIENT ASSISTENCE	CUSTOMER SEGMENTS B2C: HOUSEHOLD CLIENTS
	KEY RESOURCES PRODUCTION FACILITIES PATENTS ON CAPSULES BRANDING		CHANNELS LARGE SCALE RETAIL ONLINE: PC ELECTRONIC STORES: ONLY MACHINES	
COST STRUCTURE PRODUCTION RESEARCH AND DEVELOPMENT DISTRIBUTION CHANNELS			REVENUE STREAMS REPETITIVE SALES OF CAPSULES COFFEE MACHINE SALES	

Table 14: Business Model Canvas for Nescafé Dolce Gusto

1. Customer Segments:

Nescafé Dolce Gusto serves a single customer segment: the B2C (Business to Client) – household clients who are in the mid-tier segment who want an affordable coffee system.

2. Value proposition:

In addition to the pure-coffee capsules, Dolce Gusto offers milk-based beverages like cappuccino and caffè latte etc. They usually come in two capsules: one for the coffee and the other for the milk. The specialty preparations include Ginseng, Nesquik, Tea etc.

The Dolce Gusto machines are a combination of design, technology and functionality. The machines can be used to prepare both hot and cold beverages.

3. Channels:

The capsules are available in all major supermarket chains. The machines can be bought both in supermarkets or electronic equipment stores like Mediaworld, Unieuro etc.

Apart from the physical stores, the capsules and machines can also be bought directly from online.

4. Customer relationships:

Nescafé Dolce Gusto interacts with its customer through its online presence. Apart from the e-commerce, the website also offers information about the capsules and machines and special recipes that the customer can try out at home.

The online presence is strengthened through the Dolce Gusto application too. Premio is a client loyalty program by Dolce Gusto that allows customer to collect points by buying capsules which can later be used to redeem gifts offered from the gift catalogue.

5. Revenue Stream:

Like any other company selling the capsule system, Nescafé Dolce Gusto makes revenue from the recurring sales of its coffee capsules and one-time sale of its machines.

6. Key Resources:

The production plants are found in three locations: Girona (Spain), Tutbury (UK) and Schwerin (Germany).

Nescafé Dolce Gusto capsules have technological patents that cover their unique method that allows the capsules to trap the freshness and aroma of the coffee blends.

Dolce Gusto leverages both on Nescafé's and Nestlé's brand name to reach out to the customers.

7. Key Activities:

Apart from production, other major activities include marketing and research and development. The Dolce Gusto capsules and the machines are fruits of this technological innovation.

8. Key Partnerships:

Nescafé Dolce Gusto machines are manufactured by Krups and De'Longhi.

9. Cost structure:

Nescafé Dolce Gusto's cost structure is basically attributed to the production, the distribution channels and marketing.

16.4 BUSINESS MODEL CANVAS – CAFFÈ VERGNANO

<p>KEY PARTNERS</p> <p>EATALY</p>	<p>KEY ACTIVITIES</p> <p>PRODUCTION</p> <p>EXPANSION OF COFFEE SHOP NETWORK</p> <p>MARKETING</p>	<p>VALUE PROPOSITION</p> <p>QUALITY COFFEE: EXPERT TOASTER</p> <p>INNOVATION: COMPOSTABLE CAPSULES</p> <p>SPECIALITY: COFFEE AND BARLEY, TEA CAPSULES</p> <p>VERGNANO ACCADEMY</p>	<p>CUSTOMER RELATIONSHIPS</p> <p>WEBSITE</p> <p>SOCIAL MEDIA</p>	<p>CUSTOMER SEGMENTS</p> <p>B2C: HOUSEHOLD CLIENTS</p> <p>B2B: OFFICE AND BUSINESS.</p> <p>HO.RE.CA CLIENTS</p>
<p>KEY RESOURCES</p> <p>PRODUCTION PLANTS AND WAREHOUSE</p> <p>COFFEE SHOPS</p> <p>BRANDING</p>			<p>CHANNELS</p> <p>LARGE SCALE RETAIL</p> <p>COFFEE SHOPS</p> <p>ONLINE</p> <p>EATELY SHOPS</p>	
<p>COST STRUCTURE</p> <p>COFFEE SHOPS</p> <p>MARKETING</p> <p>DISTRIBUTION</p>			<p>REVENUE STREAMS</p> <p>EXPORT OF COFFEE BLENDS</p> <p>REPETITIVE SALES OF CAPSULES</p> <p>COFFEE MACHINES</p> <p>COFFEE SHOPS</p>	

Table 15: Business Model Canvas for Caffè Vergnano

1. Customer Segments:

Caffè Vergnano serves two consumer segments: B2C (Business to Client) and B2B (Business to Business). Their strong point is the B2B especially in Ho.Re.Ca.

- B2C: Household clients: Whole bean coffee, Ground Coffee, Capsule system;
- B2B: Office client, Ho.Re.Ca clients and Vending sector;

2. Value proposition:

From whole beans to ground brand, original capsules to compatible ones, Caffè Vergnano offers a wide range of coffee selection in all price ranges. Each coffee is special due to its roasting process, something which the company is famous for and the combination of different coffee blends.

The company produces a coffee line called 'Natura 100%' that combines prestigious coffee blends and roasted barley to create coffee very less caffeine in it.

Caffè Vergnano also has a capsule line dedicated to tea lovers in the form of capsules. Capsules can be used in both the Nespresso system and Espresso 1882 TRÈ system, the company's capsule system.

The fruit of Caffè Vergnano's innovation is its compostable capsules. Through the making of compostable capsules which can be placed in the ORGANIC waste bin without separating them from the coffee, Caffè Vergnano provides a sustainable coffee consumption by reducing the non - recyclable waste.

Vergnano Academy is a school where professionals and baristas receive training from experts in the field on every aspect of coffee through specialized courses and certified programs. The Vergnano Academy is certified Premier Training Campus by the SCA - Specialty Coffee Association, the organization that certifies at an international level the quality standards in terms of training in the coffee world.

3. Channels:

- Large Scale Retail: Whole and ground beans, coffee capsules and machines;
- Online: A dedicated E-shop for all its products- coffee and accessories;

- Coffee Shops: The Caffè Vergnano stores, Italian in style and found in cosmopolitan locations, are complete cafeterias with coffee shops and restaurants styled to create a comfort yet sophisticated area to give the customers a 360-degree coffee experience.
- Eataly shops: Caffè Vergnano is exclusively available at Eataly shops and on its e-commerce platform.

4. **Customer relationships:**

Caffè Vergnano has a fully-function website that has all the information that its customers want to know. The website also hosts the company's e-commerce platform.

The company social media presence is quite important and impressive. In this digital age, the company tries to maintain a strong relation with its client through social media engagement.

5. **Revenue Stream:**

The company makes revenue mainly through its export sales and Ho. Re.Ca channels. The brand is highly appreciated in France, Polonia and United States.

Like any other company selling the capsule system, Caffè Vergnano makes revenue from the recurring sales of its coffee capsules and one-time sale of its machines.

The company makes huge profits through its extensive network of coffee shops.

6. **Key Resources:**

- Production facility: Santena, Turin;
- Warehouses: Turin, Alba and Chieri;
- Coffee Shops: Extensive network of coffee shops, around 152, all around the world.
- Branding: Caffè Vergnano is recognized as a traditional brand famous for its 130 years of experience in roasting. The brand's association with Eataly has resulted fruitful for its

expansion. With the launch of compostable capsules, the brand reaffirmed its position towards a sustainable future.

7. Key Activities:

From the selection of the best coffee beans to the slow roasting process, the company takes meticulous efforts in the production.

Other key activities include marketing and its expansion activities through the opening of new coffee shops.

8. Key Partnerships:

Through a co-branding partnership with Eataly, Caffé Vergnano is an internationally known name. The company successfully entered the American market and is now operating in New York, Chicago and Los Angeles.

9. Cost structure:

Three main cost drivers for the company are: Coffee shops, Marketing and Distribution.

16.5 BUSINESS MODEL CANVAS – LAVAZZA

<p>KEY PARTNERS</p> <p>NIMS S.P.A – CAPSULE SALES</p>	<p>KEY ACTIVITIES</p> <p>PRODUCTION</p> <p>MARKETING</p> <p>RESEARCH AND DEVELOPEMENT</p> <hr/> <p>KEY RESOURCES</p> <p>PRODUCTION PLANTS</p> <p>BRAND</p> <p>INNOVATION CENTERS</p>	<p>VALUE PROPOSITION</p> <p>RICH PORTFOLIO OF COFFEE</p> <p>EASY TO USE – CONVENIENT</p> <p>EASY TO-GO</p> <p>EXPERIENCE AT FLAGSHIP STORE</p>	<p>CUSTOMER RELATIONSHIPS</p> <p>WEBSITE</p> <p>SOCIAL MEDIA</p> <hr/> <p>CHANNELS</p> <p>ONLINE: PC</p> <p>COFFEE SHOPS</p> <p>FLAGSHIP STORES</p> <p>LARGE SCALE RETAIL</p>	<p>CUSTOMER SEGMENTS</p> <p>B2C: HOUSEHOLD CLIENTS</p> <p>B2B: HO.RE.CA, VENDING, OFFICE SEGMENT</p>
<p>COST STRUCTURE</p> <p>PRODUCTION</p> <p>DISTRIBUTION CHANNELS</p>		<p>REVENUE STREAMS</p> <p>REPETITIVE SALES OF CAPSULES</p> <p>COFFEE MACHINE SALES</p> <p>VENDING AND HO.RE.CA</p>		

Table 16: Business Model Canvas for Lavazza

1. Customer Segments:

Lavazza serves two major customer segments: B2C (Business to Client) and B2B (Business to Business).

- B2C: Household Clients
- B2B: Office clients, Ho.Re.Ca clients and Vending machines.

2. Value proposition:

Lavazza offers a rich portfolio of coffee in multiple formats: whole bean, ground coffee and capsules, for both domestic and business uses.

The company's capsule system – Lavazza A Modo Mio - offers a simple and convenient solution for making the perfect cup of coffee every time. They are easy to use and hassle-free.

Lavazza vending machines can be located easily at multiple locations throughout the territory – big offices, train stations and in many other public places. They provide a cheap and an easy to-go solution for the busy segment of the society.

Lavazza's flagship store at Milan is a space where coffee lovers can sample authentic espresso and innovative coffee-based recipes. This beautifully designed space offers different experiential options to its clients. From coffee blending to brewing, this iconic Italian style store has coffee as the key theme. The gastronomic delights include coffee caviar and mousses.

3. Channels:

Apart from the numerous coffee shops that can be located throughout the territory, Lavazza's coffee can be 'experienced' at its flagship store.

Lavazza's rich coffee portfolio can be easily found at any large-scale retail stores or online through its e-commerce platform.

4. Customer relationships:

Lavazza interactions with its customer is restricted to its website and social media platforms

5. Revenue Stream:

Lavazza makes profit through the one-time sales of the coffee machines and most importantly, the recurring sales of capsules: both the original one and the compatible ones

Lavazza makes money also through its Vending machines and Ho.Re.Ca clients.

6. Key Resources:

Lavazza has four main manufacturing plants. The Turin plant is the first historical manufacturing plant. Other plants are present in Gattinara, where Lavazza A Modo Mio, Lavazza Espresso Point and Lavazza Blue capsules are produced and in Pozzilli for the decaffeinated coffee. Lavazza also has manufacturing plants located in France, India and Brazil.

Lavazza has always been in the forefront with its branding.

Lavazza's Innovation Centre has a group of experts active in three sectors: research and selection of raw materials for coffee, machines and systems, materials and packaging.

7. Key Activities:

Production, marketing and Research and development are Lavazza's key activities.

8. Key Partnerships:

NIMS S.p.A. specializes in the distribution and door-to-door direct sales of capsules and machines in the territory.

9. Cost structure:

Lavazza's cost structure can be attributed to the running of its production plants.

Thanks to its extensive distribution network, Lavazza's products are available in coffee shops and in supermarkets.

After the analysis of the various business models, the conclusions drawn have been summarized in the following tabular form:

BUSINESS CANVAS MODEL		ILLY		CAFFÈ VERGNANO		STARBUCKS		NESCAFÈ DOLCE GUSTO		LAVAZZA		NESPRESSO	
		S	W	S	W	S	W	S	W	S	W	S	W
CHANNELS	LARGE SCALE RETAIL	Green	Grey	Green	Grey	Green	Grey	Green	Grey	Green	Grey	Grey	Red X
	COFFEE SHOPS	Green	Grey	Green	Grey	Green	Grey	Orange	Green	Grey	Grey	Grey	Red X
	ONLINE: MOBILE	Grey	Orange	Grey	Orange	Grey	Orange	Grey	Orange	Grey	Orange	Green X	Grey
	ONLINE: WEBSITE	Green	Grey	Green	Grey	Green	Grey	Green	Grey	Green	Grey	Green	Grey
	FLAGSHIP STORES	Green	Grey	Green	Grey	Green	Grey	Grey	Orange	Green	Grey	Green	Grey
VALUE PROPOSITION	CAPSULE RECYCLING	Grey	Orange	Green	Grey	Grey	Orange	Grey	Orange	Grey	Orange	Green X	Grey

Table 17: Business Model Canvas Comparison Summary

After analyzing the entire Business Canvas Model, I have taken into account two of the nine building blocks – Channels and Value Propositions – where I found Nespresso could act to fightback competition and increase sales. I have further divided the Channels block into the various distribution channels utilized by the players. If a player is active in the given distribution channel, I have highlighted the block in green as it represents a strong point. If the block has been highlighted in red, it represents a weak point. In this case, the red represents a channel not used by the player for distribution. Instead for Value Proposition, among the many points analyzed before, I have selected the capsule recycling as the point of comparison.

I have denoted by the symbol “X” where I have found Nespresso’s weak points and strong points. Based on my findings I have suggested four recommendations of which two are new solutions to solve the weak points and the other two are solution to improve the existing strong points.

17 CONCLUSION

17.1 RECOMMENDATION #1: NESPRESSO IN SUPERMARKETS

By comparing the 'Channels' building block in the Business Canvas Model of Nespresso with that of the other players, it is quite evident that Nespresso has a direct-to-consumer sales strategy. It does not sell its products through the large-scale retail network. This is because Nespresso maintains its relationship with its members through the Nespresso Club community. Its retail version is the company's flagship store called Boutique.

In addition, Nespresso does not sell in supermarkets as it does not have a mass market to serve. It concentrates on a niche market of affluent customers who are willing to pay a premium price for the capsules and its complementary services.

Increasing the number of channels to reach the customers means increasing sales. However, this can lead to a very complex distribution matrix. A decision to sell its machines and capsules through supermarkets will not resonate with the marketing strategies of Nespresso.

However, supermarkets are very important places. People belonging to all the segments of the market go to supermarkets for shopping groceries. It's a vital place where many buying decisions are made. So, it's quite important for any company to have its presence in a supermarket.

As mentioned above, selling capsules directly in supermarkets would be contrary to the idea of Nespresso Club where Nespresso is able to keep track of what the customer buys which in turn helps in data integration.

So, what can Nespresso do differently to enter the retail world? Nespresso can establish its presence in retail by selling preloaded Nespresso Credit cards or through QR codes on Nestlé's products. This preloaded credit card can be redeemed online or at a nearby Boutique. The QR code, instead, can be scanned using the Nespresso App where the credit can be used to buy any Nespresso products online.

In this way, Nespresso can enter large scale retail trade through cross-selling. Cross-selling is a technique used by companies to sell an additional product or service along with the main product. Nespresso can leverage on Nestlé's strong distribution network to find shelf space in supermarkets. Nestlé sells thousands of its products in retail, belonging to all price ranges. Nespresso can do a study and find out which resonated better with Nespresso.

The QR codes can be printed on an appropriate Nestlé product thereby reducing the use of plastic to make the credit cards.

In the beginning, Nespresso can go-in on an exclusive partnership with a high-end supermarket and concentrate on a smaller customer base.

To an extent, this would help Nespresso fightback against the competitors who are selling Nespresso compatible capsules in the supermarket.

It is also quite interesting to note that Nestlé sells Starbucks capsules (Nespresso compatible) in supermarket. They sold right now only at Esselunga. As a renowned brand that sells good quality coffee for a price slightly lesser than Nespresso, there is a huge risk of switching. Hence, entering into the retail market would prove strategic to Nespresso.

17.2 RECOMMENDATION #2: EXCLUSIVE COFFEE SHOPS

Brands like Starbucks and Caffé Vergnano have concept stores build around the experiential elements of selling coffee. Nespresso as a brand that boasts about the multi-sensorial experience around coffee, could set up a concept coffee shop that would enhance the customer experience and sell more products.

In these exclusive Nespresso coffee shops which are self-service driven, the members can personally select their favorite capsules and machine to make themselves the perfect cup of coffee. The coffee shops will be equipped with a variety of machines and capsules where members can try out how the system works.

Such a self-service coffee shop requires the customers to engage in the process of coffee making. This also brings in the element of self-gratification from the customer's point of view.

These coffee shops could sell high-end gourmet pastries and savory dishes that would go well with Nespresso coffees. These dishes could be curated in way that drinking a Nespresso coffee along with it would enhance the flavors. For example, Starbucks has partnered with the Italian baker Rocco Princi to pair it's products with the bakers fresh and artisanal products.

Nespresso can style these exclusive coffee shops the same way the boutiques are styled to recreate the same ambience. They can also be styled with a distinctive image with the local urban and cultural context of its location. The coffee shops can be curated in such way to appeal to a specific target audience like the niche market Nespresso operates in.

A Nespresso coffee shop could be portrayed as a place where customers can spend time relaxing, enjoying their coffee. Or it can also be a place where businessmen could linger a bit longer to work or send out some important mails.

Like Eataly for Caffé Vergnano, Nespresso coffee shops could also serve as a touchpoint for selling capsules and accessories. The Nespresso App can be used to verify the client's profile and use the credit to buy Nespresso products from the coffee shop. In this way, Nespresso can maintain the structure of the Nespresso Club community even in its coffee shops.

Although the concept store requires a lot of investments, Nespresso, in the beginning, can test out the waters before the roll-out.

17.3 RECOMMENDATION #3: NESPRESSO APP - OMNICHANNEL STRATEGY

Among the big players analyzed in this thesis, Nespresso is the only company that has a fully functional mobile application with an efficient e-commerce platform.

Nespresso must cash-in on this digital world, mostly used by the millennials, by delivering an impeccable service every time the customer uses the mobile application. Nespresso can work on numerous aspects like:

- Flexible Purchasing option: Not all customers are the same, so the experience on the website must offer multiple purchasing options. The possibility to reschedule, the possibility to change the address, the possibility to send the package to near-by locker are options that would have a huge impression on the customer.
- Interactive Promotions: The app can suggest an exclusive tasting opportunity at a nearby boutique. Boutiques can offer special discounts for online purchases to clients who use the e-commerce channel which the customer can redeem on his next visit online.
- Flexible shopping carts: Websites must make options to save the shopping cart information into the customer profile since customers at times jump between devices - start shopping on one and continue that shopping elsewhere.
- Cross-platform interactions: The possibility to buy or add to the cart a product shown in a particular social media platform. So, if a customer encounters an advertisement on Facebook about a particular capsule that he wants to try later, he must be able to add that capsule directly to his cart through his profile.

- Customization through Cross-selling: A customer's shopping history is vital for providing a personalized service. It is recommendable to suggest products based on that previous product viewing.
- Push notifications: A customer in the vicinity of a boutique can be given a push notification inviting him/her to the boutique to try a new type of coffee or simply remind him of the promotions in the boutique.

In this way, the e-commerce can serve as a compliment to the Boutique experience and vice-versa.

17.4 RECOMMENDATION #4: COLLECTION POINTS RECYCLING CAPSULES

Nespresso has long been criticized for the use of aluminum. Critics blame Nespresso for the unnecessary consumption of resources and increasing the number of pollutants creating environmental hazards.

As discussed earlier, Nespresso continues to believe in the use of aluminum for making the coffee capsules. Through the use of aluminum, the coffee is protected from the exposure to oxygen and moisture in the air. Aluminum does not act just as a protective barrier but also as a barrier that trap and capture the freshness of the aromas and the flavors of the coffee. In addition, aluminum is lightweight and infinitely recyclable.

Nespresso has put forward a recycling plan for the its capsules where customers can bring back the used to the designated recycling points. Right now, the recycling points are basically the boutiques that collect the used capsules. A customer has to take back the used capsules to the boutique to ensure that they are recycled in the best way possible.

Unfortunately, this limits the initiative of recycling as not all customer would be willing to or be able to bring back the capsules every time they visit the boutique. Boutiques are usually located in big cities and in city centres. Not all customers have a boutique in the vicinity of their homes. Not all customers buy from boutique – a lot of them online customers. Even if a customer is able to bring back the used capsules, the number of boutiques is usually limited in some cities.

What Nespresso can do to improve the collection of used capsules is to place Nespresso capsule recycling bins in public places that are often visited by the customers. For example, Nespresso can place these recycling bins in large public places like shopping malls or at supermarkets where customers can drop of their used capsules. These places are often visited by customer and are usually nearby to their homes.

A similar application can be found with used batteries. Supermarket chains usually have bins placed at their stores where people can drop of used batteries. Since used batteries cannot be thrown into the usual waste bins, people are requested to drop them at these bins.

By placing such recycling bins, Nespresso will be able to increase the number of recycling points in the territory. Every time when a Nespresso member visits his/her usual supermarket or shopping mall, they are reminded of the recycling bins and would be encouraged to bring their used capsule. Nespresso must make sure that the members are aware of the nearby recycling points.

In the following table, I have summarized all my recommendations pointing out the possible pros and cons of the idea suggested, possible risks associated with the ideas suggested and the idea for a minimum viable product that could be sold to the customer.

	RECOMMANDATION	PRO	CON	RISK	MINIMUM VIABLE PRODUCT
#1	NESPRESS IN SUPERMARKETS	A new distribution channel that could increase sales	Large scale retail is a highly competitive area	Could affect the sales of Starbucks sold by Nestlé	Printing a QR code on a Nestlé product
#2	EXCLUSIVE COFFEE SHOP	A new distribution channel with customer experience as priority	Customer experience should be the priority; failing to emphasize on it would not differentiate it from other coffee shops	Highly cost-intensive to set up a coffee shops in strategic locations	A small space in the existing boutiques can be used to test out the concept of coffee bar corner
#3	APP - OMNI CHANNEL	Improving the existing app by adding new functionalities	Too much information and pop-up could cause confusion	Complexity could lead to people abandoning the app	Start with few functionalities that complement the existing features
#4	RECYCLING: COLLECTION POINTS	More number of collection points would lead to higher recycling rates	High renting fees and inaccessibility to spaces for placing bins	Customer being are unaware of the collection points	Small bins with Nespresso symbol placed in the entry way of malls or supermarkets

Table 18: Pros and Cons of the recommendations

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