

# *Research on Innovation in Nescafe's Marketing Strategy*

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**Abstract:** Coffee has become one of the world's most famous beverages, and more engineers are edging towards designing more coffee products. The high demand has attracted more people to build their own coffee brands, which makes the competition in the coffee industry more intense. Despite such fierce competition, Nescafe is earning high revenues. This paper will discuss the innovation in the marketing strategy of Nescafe. Firstly, through the website search, we have analyzed the characteristics of most coffee types, and the comparison can highlight the advantages of the coffee types introduced by Nescafe. Secondly, based on the information collected from some articles, more about the marketing model of different coffee shops is unearthed. However, when compared to traditional online and offline marketing of coffee shops, Nescafe's innovative marketing strategy is superior. In conclusion, the high revenue gained by Nescafe is attributed to mainly two reasons, product design innovation, and marketing strategy innovation. Also these two innovation can be conclude as disruptive innovation.

**Keywords:** Nescafe, innovation, marketing strategy, disruptive innovation

## 1. Introduction

With rapid economic growth, the pressure on people is even greater. That's why coffee is more popular as a drink that can refresh the mind. With the popularity of coffee, it is estimated that an average of 2.25 billion cups of coffee are consumed worldwide. The coffee market has a high-profit potential, which encourages more entrepreneurs to enter it. Some coffee brands have grown better and better and become the leaders of the coffee market, such as Starbucks. Some coffee brands fail in this highly competitive industry. Entering a highly competitive market, every entrepreneur needs to take the risk that even if they make high profits for a while, they may be replaced overnight by a new coffee brand. For example, UBC Coffee entered the mainland in 1997 and quickly exploded. But Starbucks, which arrived on the mainland two years later, quickly displaced it. This was also due to the improper management measures of UBC Coffee for the franchised stores, which affected the brand value. It shows that older coffee brands are also taking a huge risk. However, how did Nescafe, one of the earliest coffee brands, keep itself in the market and make Nescafe's revenue rise gradually?

This essay will investigate some of the reasons why Nescafe's value should be preserved. Revenue has always been one of the most important indicators used to judge the success of a brand. In 2020, Nescafe gained USD99.71 billion in San Francisco, California, USA, occupying a market share of 63.4% [1]. The comparison shows the importance of Nescafe in the coffee sector. The

innovation of both product design and marketing strategy provides Nescafe with a great opportunity to occupy the coffee market. As a result, in this article, we examine the impact of the innovation strategy and debate whether technical innovation is the most important component of innovation. The comparison of Nescafe to other traditional coffee brands would then make sense. Also, we will discuss whether capsule coffee, as a new type of coffee product, is considered a disruptive innovation. Finally, a conclusion about the possible reasons for Nescafe's success would be reached. After the in-depth research and understanding in this article, Nescafe's avant-garde technology and marketing approach can be a reference for other coffee companies and even other industries.

## **2. Analysis of the Innovation in Nescafe's Marketing Strategy**

This chapter focuses on the innovations in the marketing strategy of Nescafe. The following content will be discussed in detail from three aspects: product design, marketing strategy, and disruptive innovation. The Kurt Matzler and other author provide two main problem for a business to build a effective business model, which is the value creation and value capture. To explain more specifically, the value creation is for business to find a way to create value for customers [2]. The value capture is way for the business turn the added value into profit. The business model Nescafe also follow these questions, Nescafe continue to provide different types of new products to satisfy customer's needs.

The capsule coffee become the added value for Nescafe, the added value is the business provide extra features on goods or services. The marketing strategy follow the value capture, gives the capsule coffee that is a added value into profit.

### **2.1. Product Design Innovation**

As we know, the coffee markets provide numerous different types of coffee products. The capsule coffee was invented in 1976 by Eric Favre, an engineer at Nescafe. This new invention contains different features compared with other products that already exist on the market.

With the development of technology and economy, Nescafe upgraded its products and created a new product, the capsule coffee. Constantinos Markides point out, because innovators stress different aspects of a product or service, their products and services are necessarily attractive (at least in the beginning) to consumers other than those who want what they want from traditional competitors [3].

The innovator in Nescafe create some other function in capsule coffee that other coffee products didn't offer. It has attracted many consumers because it combines the aroma of freshly ground coffee with the convenience. The only one limitation is the capsule coffee can only use with the special coffee machine, but this limitation is solved by Nescafe in the next few years. Therefore, the product design innovation of Nescafe lead the coffee market into a new level. A case in Apple, Steve Job told us that we do not want to enter into any business where we do not own or control key technologies, because you'll get your head handed to you. Therefore, the new technology is always the core for a business, the competitors are difficulty to 'steal'. Such product innovation won Nescafe more consumers and maintained its profit growth.

### **2.2. Marketing Strategy Innovation**

The sales of capsules didn't show any upward trend before 1988. According to Michal Porter, Strategy is about being different. In the long term, only those that succeed in creating sustainable competitive advantages will succeed [4]. The Nescafe eventually realise that they didn't provide a effective marketing system for selling capsule coffee. Like McGrath said, Innovation in products

does not provide enough competitive edge to distinguish successful firms [5]. Therefore, the Nescafé provide three main marketing strategy that change the life of the capsule coffee.

First, the manager lowered the price of the machine. As we know, the capsule coffee can only be used with the special coffee machine. When the price of the machine decreases, the demand for the machine increases. More people are willing to buy the machine, and they don't want their machine to be idle. They will buy more capsule coffee to make the coffee. When the price of the machine decreases, the demand for the capsule increases. Economists label these the complementary goods. The complementary effects can also be used in the printer industry or the shaver industry. Taking printer companies as an example, they can gain more profits by lowering the price of printers. When the demand for printers increases, customers demand more ink cartridges, therefore, businesses can earn profits from ink cartridges. Similarly, when the price of the coffee machine is reduced, the price of a capsule of coffee will also be lowered, and customers will be less sensitive to prices at this time. If the price of the machine does not drop, even if people are interested in buying capsule coffee, they cannot afford the high price of the machine. Nescafé attracts more potential customers by reducing the price of capsule coffee machines, so more customers will want to buy capsule coffee. In this way, the company has cultivated the consumption habits of users through capsule coffee, paving the way for increasing profit growth.

The second is the patent application. Capsule coffee has grown in popularity, and more people are eager to try this new technology. The competitors of Nescafé also discovered the business opportunity in capsule coffee. Nescafé uses the patent to avoid competition. Then Nescafé can monopolise the capsule coffee market for a period of time. Like Kurt Matzler said, In trying to leave a monopoly impression in customers' minds by satisfying their needs [6]. It simply means that when customers think of a certain product, they can only associate it with a certain brand. "monopoly" position in customers' minds. The patent application will guarantee that Nescafé will have fewer competitors in the short term. The high sales can achieve in the short term for Nescafé, because of the first marketing strategy, the capsule coffee already become famous. After customers buy more capsule machine into their home, the customer loyalty would maintain. Therefore achieve the 'monopoly' in customer's mind.

The third is the opportunity to become a member. Nescafé stipulates that customers who purchase capsule coffee can become members. For members, companies will often provide some member discounts, and will provide the latest coffee machines exclusive to members. These will give members a cost-effective consumption experience that is valued enough by enterprises. This strategy maintains customer loyalty, and customers are willing to continue to buy Nestle's products.

The Nescafé become a competitive business model with these strategies. As Kurt Matzler said, "The idea of selling coffee in capsules has been replicated several times now, but it is difficult to replicate the whole system – the business model" [7]. Therefore, successful marketing of capsule coffee cannot be achieved without the help of strategies. The successful marketing strategy can also provide a huge competitive advantage, and quickly occupy more market share in coffee market. Like the Constantinos Markides argued, "In order to be considered innovative, a new business model has to expand the existing economic pie, either by attracting new customers or by encouraging existing customers to consume more [8]."

### 2.3. Disruptive Innovation

Definition from Wikipedia display that disruptive innovation refers to the creation of a new market and value network or entry into an existing market, ultimately displacing established market leaders, products, and alliances. The disruptive innovation always happen in a process, as Dan Yu said [9]. Nescafé experience several disruptive innovation. In this article, we will talk about the radical disruptive product innovation and business model disruptive innovation. As Constantinos Markides

said, Different types of innovation result in different competition effect, which results in different market [10]. Therefore, we will talk about these disruptive innovation separately.

The radical product innovation always play a significant role in a business, In the capsule coffee example, it is a disruptive innovation that enters the low end. Schmidt explain the disruptive innovation is the when the performance of a new product can be improved over time by virtue of its conventional characteristics, it can be expected that it will ultimately move up the market, reflecting the lower end sales [11]. To be more specific, compare capsule coffee to freshly ground coffee; the capsule coffee is not as fresh. People would not try these new products because they are unfamiliar with it, but after more customer try these product, the capsule coffee would raise into the mainstream customer. However, because capsule coffee is much more convenient and less expensive than freshly ground coffee, someone who does not know how to make coffee can use the capsule coffee to make coffee at home. The level of freshness of capsule coffee is similar to freshly ground coffee. In the reference of Constantinos Markides, "Radical innovations are disruptive to consumers because they bring in products and value. A proposition that significantly disrupts the prevailing habits and behaviour of consumers." [12] The invention and implementation of capsule coffee has changed people's behavior to some extent. With the development of technology, people are more and more concerned about health, which makes consumers more inclined to buy healthy, convenient and cheap capsule coffee.

The business disruptive innovation also happen in Nescafe. Because there are so many substitutes in the market today, customer loyalty becomes extremely important. Disruptive innovation in a business model requires an intricate blend of strategies that serve to maintain customer loyalty. In the process of selling capsule coffee, Nescafe offer some different strategies that we introduced earlier make the business model special than others. These strategy allows people could buy cheaper capsule coffee and machine in home.

However, as an established company, you need to keep an eye on whether you are losing potential customers or existing customers to observe market trends, as well as be cautious of new companies that are disruptive and innovative in the market. Paap and Katz pointed out general guidelines for predicting future disruptions. Don't, for instance, neglect your clients, present or potential. The problem is to identify the drivers for the future, the ones that come together when the old drivers reach their leverage limit, and the ones that come out when your client's environment has changed [14].

### 3. Conclusion

The innovation of the marketing strategy and product design differentiates Nescafe from other coffee brands. The capsule coffee and business model become the example of disruptive innovation that come from low end. Innovation has almost become the root of a business' success. Even though Nescafe has gained high revenues through these innovative approaches, the coffee market is very competitive. New coffee companies are emerging all the time. For example, Starbucks came up with some marketing strategies before Nescafe and quickly took over the market in some regions. Therefore Nescafe, as an old company, can't be lax because of its one success. We suggest that Nescafe observe more market trends and discover the emergence of disruptive products in time. And they will always keep exploring new areas, using their resources to capture more market share than smaller companies and maintain their position. However, this essay only focuses on one brand, Nestle, and the sample is limited, it is hard to apply this example of a business model to other markets. We hope that future studies can expand the scope of the study and do a comparative analysis of the marketing strategies of different brands.

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