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Center for
Sustainable Business

Nespresso: Supply Chain and Stakeholder Engagement Case Study

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The Challenge

Nespresso was founded in 1986 with the simple idea of enabling anyone to create the perfect cup of high quality coffee at home. Pioneering the portioned coffee concept, Nespresso remains at the forefront of the sector with market growth greater than 20% in recent years and annual sales over \$4.5bn.¹ Nespresso's success stems from its dedication to creating long-lasting relationships with consumers, building sustainable business solutions, and sourcing the highest quality coffee. However, given that current social and environmental trends present grave risks for coffee production, Nespresso was faced with the following challenge: How do they ensure a long-term supply of high-quality, sustainable coffee and, given the scale of the problems, with which partners?

Strategy

Nespresso estimates that only 1-2% of the global coffee crop meets the taste, quality, and aroma profiles required for their Grand Cru coffees.² Ensuring the long-term supply of the highest-quality coffee is therefore essential for the growth of their business. Yet, the livelihoods of their suppliers, smallholder coffee farmers, are under threat due to volatile market conditions, poverty, environmental degradation, low productivity and unpredictable weather patterns. To protect the future supply of high-quality coffee, Nespresso believed it must help farmers develop sustainable agronomic practices and earn a decent livelihood.

In 2003, Nespresso launched the AAA Sustainable Quality Program in partnership with the Rainforest Alliance. Nespresso chose Rainforest Alliance as its partner due to the holistic nature of the Sustainable Agriculture Network (SAN) standard Rainforest Alliance and developed with its partners in the coffee producing countries. The standard focused on environmental, social and economic improvements—helping farmers to have better managed, healthier and more productive farms. Nespresso and the Rainforest Alliance (together with its SAN partners) developed a framework to assess the environmental and social performance of the Nespresso farms. Using this framework, they enlisted The Colombian Coffee Federation, local producer associations and SAN members to evaluate coffee-growing clusters against the AAA Program criteria: Quality, Sustainability, and Productivity.

This analysis enabled Nespresso to see exactly what kind of assistance was needed where for which suppliers. Some needed help with water management, others with seasonal labor treatment, for example. Nespresso, the Rainforest Alliance, and agronomists designed performance improvement strategies and partnered with other NGOs like TechnoServe, producer associations, traders, and suppliers to

¹ Nespresso Challenge Case Study. 2016.

² Ecolaboration Report 2009-2013.

provide training and technical assistance for improving the sustainability of coffee production.

Nespresso also saw a need to assist farmers with financial management, as many of them were not able to assess how their farms were doing financially. Nespresso developed financial literacy programs in partnership with Root Capital, a non-profit social investment fund.

Was all this work having an impact? In 2008, Nespresso collaborated with INCAE, the leading international business school in Latin America, to assess the economic impact of the AAA Program. INCAE's survey, along with studies by the International Finance Corporation (IFC) and CRECE indicated that Nespresso's integrated approach was positively impacting the environment, coffee quality, and farmer livelihoods.³

While Nespresso established itself as an industry leader in sustainable sourcing, critics challenged their reputation as a sustainable brand because of the waste and carbon emissions generated by single-serve coffee pods. In 2009, Nespresso launched Ecolaboration, a company-wide program to integrate sustainability throughout their operations and set ambitious targets around sourcing, capsule recycling, and carbon emissions.⁴ To address recycling, Nespresso first commissioned Quantis to perform an environmental life cycle assessment of their aluminum capsules. They then worked country by country (as each had different recycling capacities) to find partners who would help them find solutions to recycle the capsules.

After undertaking a lifecycle analysis of the carbon footprint of a cup of coffee, Nespresso set and met a goal of a 20% reduction by 2013, through machine use and coffee growing practices. They enlisted machine suppliers, engineers, and sustainable technology experts to design more energy efficient machines and continued promoting sustainable agriculture through the AAA Program.⁵

Nespresso had found that working systematically with non-traditional partners across their business was helping them manage risk and innovate. In 2013, Nespresso formalized the process and created a Sustainability Advisory Board comprised of global sustainability leaders from the Rainforest Alliance, TechnoServe, Fairtrade International, the Colombian Coffee Farmers Federation, and others to provide insights and additional partnerships to further improve the company's sustainability strategy.⁶

Nespresso also believes that they need to engage the next generation of business leaders and key business institutions. They launched the Nespresso MBA Challenge in 2013, have had three challenges, and today 100 business schools from around the

³ Ecolaboration Report 2009-2013.

⁴ Nespresso Challenge Case Study. 2016.

⁵ Ecolaboration Report 2009-2013.

⁶ Nespresso Challenge Case Study. 2016.

world are fielding MBA teams. The process engages students and faculty with the challenges confronting a leading coffee company, enables Nespresso to get fresh ideas regarding those challenges, and gain insight into millennials.

Nespresso successfully met and in some areas surpassed their 2013 sustainability targets. Building on Ecolaboration's accomplishments, Nespresso announced a new strategy in 2014 called The Positive Cup, whose vision is "a cup of coffee that can create shared value and a greater, positive impact on society and the environment."⁷ Nespresso set ambitious 2020 sustainability goals that aim to restore and replenish the environment and human resources; these include sourcing 100% sustainably grown coffee, 100% sustainably managed aluminum, and 100% carbon efficient operations.⁸ Some Positive Cup projects include addressing intergenerational succession challenges in coffee farming through a public-private partnership with Fairtrade International in Colombia.⁹ Nespresso will also expand its agro-forestry efforts in partnership with the Rainforest Alliance and Pur Projet to restore natural habitats and increase climate change resilience in coffee-growing communities.¹⁰

Impact

Nespresso's commitment to sustainable quality has resulted in significant social and environmental impacts across its operations. Today, over 80% of Nespresso's coffee comes from AAA certified farms,¹¹ extending to 74,000 producers in 12 countries.¹² According to a study by CRECE of over 1,000 Colombian coffee farmers, AAA farmers experienced 22.6% better social conditions, 41% better economic conditions, and 52% better environmental conditions than non-AAA farms.¹³ By improving farm productivity, Nespresso is increasing the quantity of green coffee that meets their quality requirements.¹⁴ Because AAA farmers are paid 30-40% above market price,¹⁵ they are more likely to stay in farming and be loyal suppliers. Nespresso has been able to reinvest its earnings back into the supply chain and is able to implement social good programs such as reviving coffee production in war-torn South Sudan.¹⁶

⁷ The Positive Cup. <https://www.nestle-nespresso.com/sustainability/the-positive-cup>

⁸ The Positive Cup. <https://www.nespresso.com/fr/en/developpement-durable>

⁹ <https://www.nestle-nespresso.com/newsandfeatures/nespresso-joins-public-private-partnership-to-pilot-an-innovative-retirement-program-for-colombian-coffee-farmers>

¹⁰ Ecolaboration Report 2009-2013.

¹¹ The Positive Cup. <https://www.nespresso.com/fr/en/developpement-durable>

¹² Nespresso Challenge Case Study. 2016.

¹³ Centro de Estudios Regionales Cafeteros y Empresariales (CRECE), Monitoring and evaluation study of the Nespresso AAA Sustainable Quality™ Program in Colombia, May 2013, <http://www.nestle-nespresso.com/media/library/documents> as cited in Ecolaboration Report 2009-2013.

¹⁴ Ecolaboration Report 2009-2013.

¹⁵ Ecolaboration Report 2009-2013.

¹⁶ Bringing Opportunity to the Cradle of Coffee.

<http://www.nespresso.com/positive/uk/en#!/sustainability/south-sudan>

Further, Nespresso improved recycling capacity from 25% to 80% of capsules worldwide since 2009.¹⁷ Lastly, by developing more energy-efficient machines and promoting sustainable agriculture practices, Nespresso decreased the carbon footprint of a cup of coffee by 20%.¹⁸ Since 2009, Nespresso consumer machines feature a stand-by or power-off mode, resulting in 70% reduction of carbon emissions from machine use.¹⁹

Challenges with Stakeholder Management

Managing stakeholders, and especially many in different countries, presents a management challenge and requires financial and human resources as well as employee liaisons who are comfortable working with NGOs, academics, producers organizations and government. Nespresso has 10 people working with stakeholders on specific projects and devotes significant senior leadership time as well.

Partners have their own agendas and need to be persuaded that there will be a win-win if they are to engage with Nespresso. Sometimes partners have conflicting agendas, which requires Nespresso to mediate and determine the best way forward for Nespresso, at the risk of alienating a partner. For example, Rainforest Alliance and Fair Trade, Nespresso partners, both have their own certification systems and would like Nespresso to move all its farmers into those programs as the next step after AAA. Nespresso has encouraged farmers who would like to get certified to proceed, 1/3 of the farmers are Rainforest Alliance certified, for example, but is not requiring it. This is an on-going discussion, yet to be resolved.

Another stakeholder challenge related to the farmers lies with the tension between yield, quality and real farmer income. Nespresso needs top quality coffee and pays farmers accordingly. However, top quality can result in lower yields, which can reduce income, even at higher prices. In order to maintain commitment from high quality, sustainable farmers, Nespresso has to ensure the real farmer income is a net positive.

For these issues and others, building trust and transparency in stakeholder engagement is key.

Lessons Learned

Sustainability has been an integral piece of Nespresso's business model since 2003. Their comprehensive approach to solving social and environmental challenges through stakeholder engagement can serve as a model for others on the path to sustainability. Nespresso lacked the expertise to address all their sustainability challenges, so they enlisted non-traditional partners. While working with partners, they determined that solving their challenges required systems thinking. For

¹⁷ Ecolaboration Report 2009-2013.

¹⁸ Ecolaboration Report 2009-2013.

¹⁹ Ecolaboration Report 2009-2013.

example, by working with the Rainforest Alliance to design a comprehensive farm management system, they learned that their coffee quality requirements were tied to underlying social and environmental issues. The resulting “sustainable quality” strategy therefore addresses all aspects of sustainability.

To effectively engage partners, Nespresso needed to propose win-win solutions for each stakeholder. For example, they needed to demonstrate to farmers that the AAA Program would increase income and productivity; and to Rainforest Alliance, they needed to commit financially to supporting SAN and demonstrate that developing the AAA Program would further Rainforest Alliance’s mission of conserving biodiversity and providing sustainable livelihoods.

The further Nespresso proceeded on its sustainability journey with its partners, the more the company learned about how to innovate and improve. With each step, Nespresso faced new challenges and sought partnerships to help them create innovative solutions. In the U.S., for example, they were not able to set up a capsule recycling system, but instead created a program for members to mail back capsules. Nespresso may not always reach sustainability targets, but each challenge forces them to reassess their operations. This introspective approach led to continual iterations that resulted in The Positive Cup, a program with far greater impact than Nespresso could have imagined in 2003.

Through successful multi-stakeholder partnerships, Nespresso is now a leader in sustainability in the coffee sector and is driving innovation throughout the industry. With increasing competition from cheaper, single-serve coffee options, Nespresso is challenged to maintain a model that allows for continual investment in sustainability initiatives in the future. Nespresso is exploring strategies at the moment. The first is the development of a Nespresso innovation Fund and platform, where the company is seeding investments, but bringing in other investors—impact investors, foundations, and governments, to co-invest in some of the underlying needs in the coffee landscape. In addition, they are researching how to best engage their Nespresso Club members - -because the support of millions of Nespresso enthusiasts could help unlock more investment in sustainability.

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