

A Cup of Entrepreneurship

Nespresso & Sudden Coffee
case analysis

Corporate Entrepreneurship & Design Report
MUO-E9009, Professor Peter McGrory





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The aim is to identify the similarities and differences between entrepreneurial activities in corporate and startup organizations and gain insights on possible improvements within organizations strategies.

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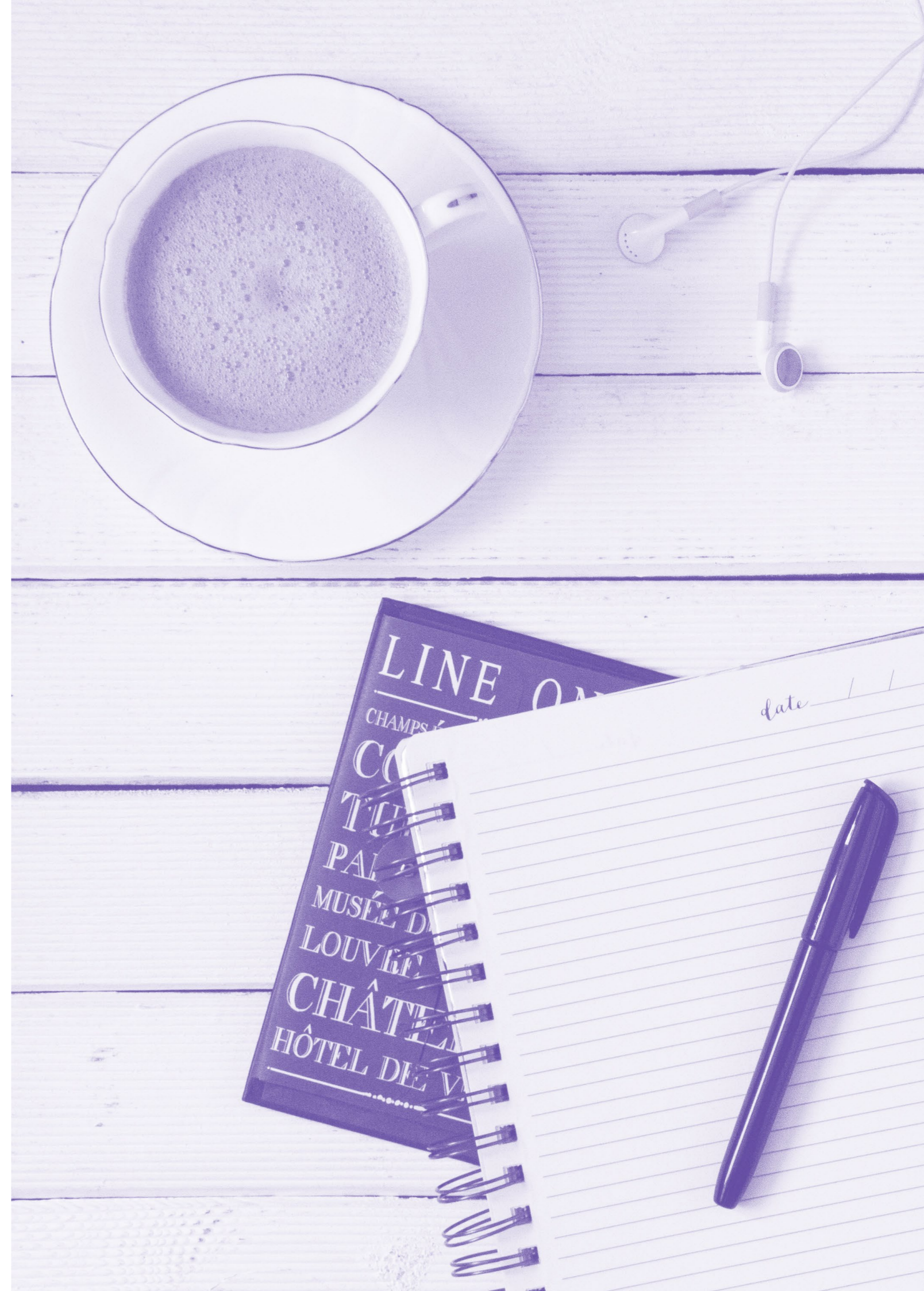
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Coffee Industry

Overview

Coffee is one of the most widely consumed beverages worldwide. The retail coffee market is very huge and can be segmented into R&G (Roast and Ground), Instant (soluble), Portioned and RTD (Ready To Drink). Ground coffee took the largest sales share with 34.7 percent of retail sales in 2015, followed by Instant coffee (28.4%). Portioned coffee has become more and more popular among customers and experiences a significant growth over the past several years.

- The Instant coffee market reached a volume of 21.5 Million Bags (worth US\$ 9.9 Billion) in 2016, growing at a CAGR of 5% during 2010-2015. Instant coffee has the most consolidated competitive landscape of all hot drinks, due to the importance of brand to the consumer experience. Nestlé is the overwhelming leader, holding a 44% retail value share in 2015.
- The Portioned coffee market is the fastest growing segment in the coffee industry with a CAGR of 18% during 2010-2015. According to Nielsen, in 2015 Nestle held 37% of the global portioned coffee market while JAB is the market leader in this segment with 44% market share. Nespresso from Nestle is the dominated brand of portioned coffee worldwide.

Structure

The coffee industry is considerable consolidation, leading by top three giants - Nestle, Starbucks and JAB in the retail market. Nestle is the long established corporation and one of the biggest beverage company in the world. It is the number one coffee brand globally. Starbucks is the biggest coffee house chain worldwide based on number of stores with 22557 stores worldwide in 2015. JAB holding company own a collection of many coffee brands globally, leading the portioned coffee market share.



Coffee Industry

Coffee industry trends and key success factors

The global coffee industry has grown steadily for recent decades, and projected to continue grow for the coming years. However, consumer drinking behaviors and lifestyle keep changing over time that shifts the trends and key success factors driving the coffee industry into new era.

- First, there is a **shift toward Specialty coffee consumption**. For example, 39% of younger consumers drink gourmet coffee – suggesting new opportunities for coffee companies. Moreover, specialty coffees and portioned coffee are growing in popularity, while sustainability remains important.
- Second, **innovation** and **do-it-yourself** are growing concepts in coffee. Consumers have continued to demand new coffee products.
- Third, the opportunities for instant coffee to gain more popularity among new consumers lie in continued innovation, both in terms of developing **new flavors** and **improving quality**.



Company Introduction

Nespresso

Nespresso is a capsule coffee brand of Nestlé Group, a Swiss food and drink company. The first patent for an espresso machine was made in 1976 (“Anyone for coffee? The story behind the coffee capsule”, 2010) and in 1986 Nespresso SA was listed as its own company under Nestlé (“Our history”, 2017). The company’s vision was to allow anyone to make an excellent cup of espresso like a barista. The key aspects of the company’s strategy are quality, innovation and sustainability as well as creating long-lasting relationships with consumers (“Our Strategy”, 2017)

Nespresso is present in 64 countries and had 450 boutiques around the world at the end of 2015. The company has over 12,000 employees and an in-house R&D function. (“Facts and Figures”, 2017) In 2016 Nestlé’s powdered and liquid beverages (including both Nespresso and Nescafé) did CHF 19.8 million in sales with a 20,8 % profit margin. The sector had an organic growth rate of 4,6 %. (“Nestlé Annual Review 2016”, 2017, p. 24) Although the revenues for Nespresso specifically are not listed in Nestlé’s annual review, the revenues were estimated at \$3 billion in 2011 (“Triggering Demand”, 2011).

The core products of Nespresso are coffee and coffee machines. Instant coffee is offered in dozens of different varieties and there are over 60 coffee machine models (“Facts and Figures”, 2017). Nespresso instant coffee is packed into individual aluminium capsules that can be used in the company’s machines. In addition to its products, the company operates an ecommerce website and Nespresso boutiques selling capsules and offering a general brand experience as well as the recently launched Café Nespresso. After buying a Nespresso coffee machine customers can also join the Nespresso Club to order coffee capsules online and get access to a variety of other services. (“Services”, 2017)

Nespresso ultimately serves the premium market. Nespresso coffee machine prices range from about 69 € for a DeLonghi machine to 499 € for a high end Nespresso Creatista Plus. From other brands coffee making equipment for households can be purchased for clearly lower prices. Nespresso boutiques extend the luxury notion with the Club which Nespresso customers can join once they have bought a machine and coffee capsules. Meanwhile, 30 % of the world’s Michelin-starred restaurants serve coffee from Nespresso. (“The rise of the coffee pod machines”, 2013) What’s more, George Clooney has been the brand ambassador since 2006 (“Our history”, 2017) promoting and communicating the brand image.



Company Introduction

Sudden Coffee

Sudden Coffee is an online retail store that sells instant coffee powder, founded by Kalle Freese and Joshua Zloof in 2015 and based in San Francisco, California.

The product is crystallized coffee made from high-quality coffee beans brewed to perfection: just add water or milk to prepare a delicious cup of coffee in no time. There are no preservatives or chemicals. As a result, Sudden Coffee is more comparable to a pour over at a top cafe.

Sudden Coffee is only available by mail on a subscription basis: www.suddencoffee.com. A monthly subscription is \$19 for 8 cups a month; \$38 for 16 cups; \$57 for 24 or \$76 for 32. Customers can try two cups of Sudden Coffee for free on a 21-day trial; cancel at any time. By subscribing to be a member, customers will receive new coffees to try, educational information about coffee, and exclusive members-only content. And the membership will become more personalized & designed as the membership lasts longer (“Frequently Asked Questions”, 2017).



SWOT

Nespresso

STRENGTHS

- High quality coffee
- High brand equity
- Premium positioning
- Easily available (Boutiques, pick-up points, online, mobile application)
- Exclusive customer service/care: Nespresso club: Customers can benefit from a range of personalized services, designed just for them. Immediate assistance for the machine.
- Environmentally friendly: New recycling plan/They provide different options for recycling the used aluminum capsules and fulfilling the customer's commitment to protecting the environment. Take them to the nearest Boutique, or your local station for aluminum recycling.
- Good B2B solutions

WEAKNESSES

- Capsule system: The recycling plan could be further developed (where to find the nearest Boutique, or your local station for aluminum recycling in Finland?)
- Expensive pricing
- High Costs

OPPORTUNITIES

- Line extension
- Brand collaboration
- Selling through retailers
- Experiment with new delivery systems (online, mobile, tablets)
- Increase in environmental awareness
- Consumers seek after high quality and sustainable coffee
- Expand the "take away" aspect

THREATS

- Other drink alternatives: Tea consumption have become more frequent
- A lot of competing coffee brands
- Demand of convenience due to fast paced lifestyle: Ready to drink coffee takes off.
- The canned and bottled ready-to-drink coffee market reached \$2.4 billion in 2015 and has only continued to climb.
- Coffee consumption has moved from the privacy of consumers' homes to more public venues and the younger generation (millennials) is more social and mobile and more focused on experience than price.

Sudden Coffee

STRENGTHS

- Artisan instant coffee, tasting like pour-over.
- No additives.
- Superior flavor over competitors.
- More freedom for coffee making based on different needs: adding sugar, milk, etc.
- Beans are selected every season. And new flavor per month.
- Convenient: no machines, easy to carry, easy to make.
- Cut the budget for extra tool. Money's all spent on coffee.
- Freeze-drying technique.
- Automatic delivery per month (subscribe once).
- Membership service.

OPPORTUNITIES

- Customers with higher quality demand.
- Create a new trend and lifestyle.
- Better personalized services for the target market via subscription and delivery system.
- User's loyalty.
- Community of coffee culture.

WEAKNESSES

- Higher price than competitors.
- New name for the market.
- Selling through website. Hard to reach customers.
- Small scale. Limited orders.

THREATS

- Big brands' innovation and brand strength.
- People may distrust its high quality as instant coffee and higher price.
- The technology may be replicated.
- Retailing industry.

Effectuation

Effectuation in the case companies

Effectuation has been visible in both case companies even if it hasn't always been effortlessly applied. Next we will discuss some events and traits of the case companies and examine how they relate to effectuation. The following table aims to summarize these and is adopted from the framework of multidimensional construct to identify effectuation approach that was developed by Sarasvathy et al. (2005):

CONSTRAINTS	EFFECTUATION	NESPRESSO	SUDDEN COFFEE
View of the future	Design. The future is contingent on actions by willful agents	Opportunity alerts with entrepreneurial mindset. Favre was teased about the coffee quality by his wife.	Opportunity alerts with entrepreneurial mindset. Freese was annoyed by instant coffee quality.
COSTRUCTS PERTAINING TO INDIVIDUAL DECISIONS			
Givens	Means (Who I am, what I know, and whom I know) are given.	Nespresso started with the idea of Favre. He had an intention to learn more about the business side and effortless to convince the organization to realize the business idea.	Sudden Coffee was built from a coffee shop with the expertise and passion of its founder – top 10 barista of the world.
Decision agenda	Effects. What effects can I create with the means I have?	At the beginning, Favre spent a lot of effort to do planning, pitching	Based on the people and resources he has, Kaalle built the

CONSTRAINTS	EFFECTUATION	NESPRESSO	SUDDEN COFFEE
		to convince Nestle invest in the project. They relied much on corporation resources. However, when Nespresso was established as a new separate company, Nespresso break away from the corporation's processes to build its own culture as a startup with more of experimentation and flexibility. Consequently, many innovation came at that time.	company step by step. First, with his small coffee shop, Kalle tested the business idea. Then he teamed up with learn more about the business. Afterward, when the company got funding, he aimed to scale up and penetrate into other markets.
Basis for commitment	Can. Do what you are able to do – based on imagination and satisficing.	Although there was not much available data to convince Nestle as a Corporation to take action, Jean-Paul Gaillard - Commercial Director decided to push the product onto the market because he believed that demand could be created by introducing a new product to consumers.	Frustrated by how unscalable and inconsistent selling good coffee is in a coffee shop and how sucked the instant coffee is, Kaarle literally spend 12 hours per day pulling shots and improving the process of making high quality instant coffee.

Effectuation

CONSTRAINTS	EFFECTUATION	NESPRESSO	SUDDEN COFFEE
Stakeholder acquisition	Instrumental view of objectives. Who comes on board determines project objectives.	When Nespresso bring Jean-Paul Gaillard, a marketer from Philip Morris, to the company, its operation changed to the way that was able to avoid doing things the way they had usually been done at Nestlé. Obviously, they did shift the business into new direction.	Teaming up with a coffee scientist. Freese had realized that he could only serve a limited amount of people through his coffee shop in Helsinki. Meeting with the coffee scientist Chahan Yeretizian finally made him build the company.
CONSTRUCTS IN TERMS OF RESPONSES TO THE ENVIRONMENT			
Predisposition toward risk	Affordable loss. Calculate downside potential and risk no more than you can afford to lose.	Taking the product to the consumer market to test it. The company proactively engage customers in their process of product development and innovation.	Sudden coffee has been carefully tested many times and constantly upgraded its quality to reach the customer expectation in the US market. The company recently launched 3.0 its version.
Predisposition toward contingencies	Leverage. Surprises can be positive. So, invest in techniques that are open to them and leverage them into new opportunities.	Nespresso open up for experimentation, prototyping and testing their concepts on product solution or in different market segments to catch new opportunities.	Freese's coffee shop sort of worked as a small trial into a bigger thing which Sudden is trying to be.

CONSTRAINTS	EFFECTUATION	NESPRESSO	SUDDEN COFFEE
Attitude toward others	Partnership. Build your market together with customers, suppliers and even prospective competitors.	Focusses on building customer relationship and loyalty. They created programs to help and cooperate with suppliers. Users are involed in the new product and innovation development. Today, fully 60% of Nespresso employees work in direct contact with consumers, providing the company with a customer feedback.	They want to focus on the quality and make the coffee as good as possible rather than spending time on competitor side.
Underlying logic	To the extent, we can control the future, we do not need to predict it.	Some Individuals in Nespresso managed to lead change within the organization. They have persistence and a clear vision for the future to come.	By applying trial-and-error method, Sudden coffee found its right customer segmentation. According to Kalle: We started by targeting "coffee snobs" but we're now realizing that they indeed are not the best segment for us. We're shifting our focus toward more everyday coffee drinkers who are still interested in great coffee.

Effectuation

Source of insight

The coffee machine innovation at Nespresso was a combination of chance, passion, determination and a series of prototypes. More specifically, it was the outcome of an individual's, Eric Favre's, efforts. Favre was an engineer and eager inventor who wanted to learn more about the business world by joining Nestlé in 1975. During his time at the company, he set out on a mission to discover how anyone could make a great cup of coffee at home. After being teased by his wife about the lack of knowledge on coffee making in Switzerland, the couple toured Rome to find out the secret to great coffee making. ("The Nespresso story", 2016) Favre noticed that the best baristas used a certain method to let air in the water and started prototyping his idea ("Anyone for coffee?", 2010).

Similarly to Nespresso's original invention, the creation of Sudden Coffee was inspired by the need to make good-quality soluble instant coffee. According to the company's website ("Our mission", 2017) the stroke of insight came to the founder and barista Kalle Freese on an airplane where he was served terrible instant coffee. Freese had also realized that he could only serve a limited amount of people through his coffee shop in Helsinki. Meeting with the coffee scientist Chahan Yeretzian finally made him build the company. Sudden Coffee's current scientific advisor, Yeretzian is interestingly a former taste specialist at Nespresso. ("Sudden Coffee aims to stir up" 2017)

The effectual cycle seems to have played a role in both case companies. Effectual cycle is the way in which entrepreneurs seize and develop business opportunities. Instead of causation -determining the goal in advance and then the ways of reaching it- they start with what they are passionate about, what they know and who they know. ("Effectual cycle", 2017) In the two case companies innovation didn't come from traditional R&D activities or a brainstorming session, but from an entrepreneurially-minded individual who had the skills and environment to pursue the insights and the perseverance to act on them. The decision to test ideas came from a set of accumulated events and an inspiring person: Favre was teased about the coffee quality by his Italian wife and Freese was annoyed by instant coffee quality and had an encounter with a coffee scientist (Sudden Coffee).



Effectuation

However, the positions of the two entrepreneurial individuals were different. Favre acted within a large corporation on his mission while Freese was a more traditional startup entrepreneur without any boundaries set by an external entity. When trying to convince people of their ideas, Favre faced Nespresso's managers while Freese investors. In Nespresso's case it seems that acting on one's personal project within a company requires a slightly rebellious attitude, strong faith in one's creation as well as perseverance.

Company culture

Nespresso's story shows the difficulty of pushing ideas that don't align with the current strategy – even when the company is struggling with the current one. In general, it is often difficult to assess the viability and feasibility of an idea. Moreover, it is acknowledged that mavericks like Eric Favre – the main innovator for Nespresso – aren't always able to distinguish between good and bad initiatives (Garvin & Levesque, 2006). Still, if Favre had not been moved to Japan where he was listened to, it is possible that Nespresso would never have been born.

Nespresso: Early innovation and resistance

New ventures can face resistance from the traditional units in a company – and this was also the case in the Nespresso story. The first aspect of resistance depicts a situation where the company cannot see the value of branching out or realigning its strategy since it is doing well in the present. Due to a boom in the instant coffee market Nestlé was already operating in, executives couldn't see the relevance of the espresso machine pitched by Eric Favre. They believed that consumers would continue to drink instant coffee at home. It took Eric Favre several years to convince Nestlé to try out the idea: it was only when he was sent to Japan on an assignment that the idea took off when presented to local executives. (“The Nespresso story”, 2016)

Another example is the move from office to household customers. Nespresso's espresso machines were originally developed primarily for the office sector but the company only took off when the target market was switched to households (“Innovation's Hidden Enemies”). Since the idea of consumer customers was not backed up by data, it was difficult to convince Nestlé to act on it. However, the current Commercial Director Jean-Paul Gaillard wanted to push the product onto the market because he believed that demand could be created by introducing a new product to consumers. Eventually, he got to try out his idea and it proved profitable in three months. (Brem, Maier & Wimschneider, 2016)

Effectual aspects like visioning the future instead of trying to predict it as well as opportunity prototyping are present in the two examples (Sarasvathy et al., 2005). The Nespresso example supports the notion that testing a hypothesis through experimentation can be an effective way to shape strategy (Garvin & Levesque, 2006). The resistance towards trying out a new market stemmed from the lack of hard data and possibly the unwillingness to go off a chosen path. This is understandable as financial predictions can be very unreliable when there is barely anything to measure. However, the only way to test the hypothesis was to actually prototype the idea in the market. Aspects of affordable loss can also be seen in the way new markets were tested through prototyping.

These two examples show that there seems to be a need for both structure and playfulness in shaping strategy. This is supported by Garvin and Levesque (2006) who have acknowledged that corporate entrepreneurship requires acts that balance a trial-and-error approach with structured planning based on analysis.

Effectuation

Leadership

The case study of Nespresso indicates that although effectual actions or innovations take place in larger corporations, they require strong leadership. According to Prats, Sosna and Velamuri (2012) young, growing companies face the issue of whether to hire experts or talented people who can eventually grow into the job. Seen as a startup in its early years, Nespresso also faced these challenges. Although Nestlé's culture hasn't always been very open to innovation, individuals have managed to lead change. The two aspects that seem to be combined in the individuals pursuing or advancing innovation are a clear vision for where to go next as well as persistence.

Nespresso: Strong leaders build a new company culture

After a venture takes off, companies need to decide how to position it within the corporations. After the first few years, Nestlé chose to create a separate company, which called for strong leadership that helped the new culture thrive. The fact that the business model of the new venture, Nespresso, was quite different from Nestlé's contemporary mass-market coffee brands was affecting the freedom to innovate. To gain more autonomy and seek an original identity for the new business Nestlé's CEO Peter Brabeck moved the company into a different building. ("Innovation's Hidden Enemies", 2011) In 1986 Nespresso was also listed as its own company under Nestlé ("Our history", 2017). Additionally, in 1988 Brabeck hired 33-year-old Jean-Paul Gaillard, a marketer from Philip Morris, to bring the company alive after it had been struggling in the office and restaurant segment of the espresso machine market (Brem, Maier & Wimschneider, 2016; "Innovation's Hidden Enemies", 2011).

Nestlé's decisions in the early years supported the creation of an original identity for Nespresso. Physical distance possibly allowed Nespresso to break away from the corporation's processes and hierarchy to find and build its own culture. This way the early-day Nespresso became a startup within a large corporation. Additionally, as an outsider, Jean-Paul Gaillard was able to avoid doing things the way they had usually been done at Nestlé

("Innovation's Hidden Enemies", 2011). He was probably somewhere in between an expert and a talented person able to grow to the job, as he was still quite young when landing the job.

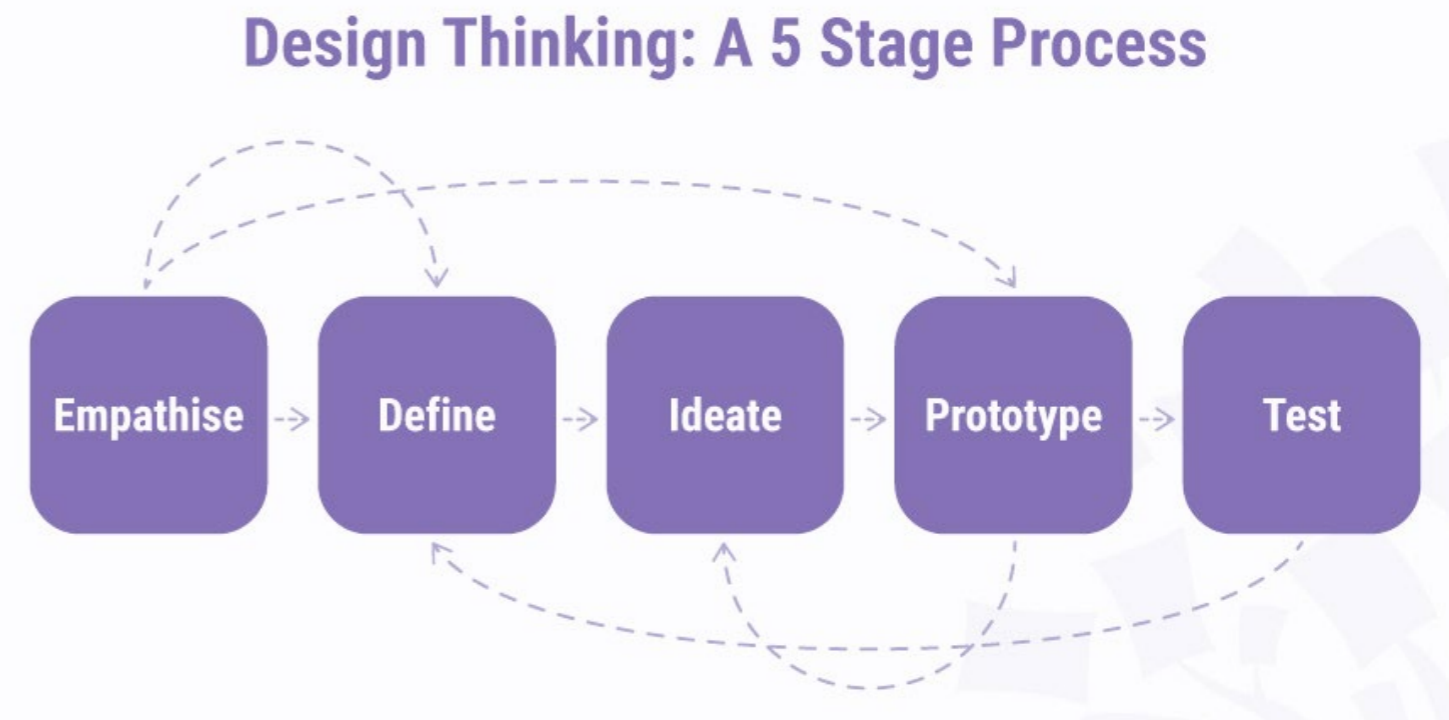
In the case of Nespresso, having a separate identity from the parent corporation seems to have had a positive impact on the company's success. Many of the innovations that shaped Nespresso's business and brand took place in the following decade. In 1989 Jean-Paul Gaillard led the Nespresso coffee machines' introduction to the household market and started the Nespresso Club - actions that shaped the Nespresso business and brand (Brem, Maier & Wimschneider, 2016). In 1996 the internet site that eventually became an important brand cornerstone and a sales channel was launched. ("Our history", 2017)

Design thinking & Innovation

Design Thinking

Design Thinking is a design methodology that provides a solution-based approach to solving problems. The five-stage model proposed by the Hasso-Plattner Institute of Design at Stanford (d.school) defines five stages of design thinking: Empathise, Define (the problem), Ideate, Prototype, and Test (“5 Stages in the Design Thinking Process”, 2017).

This chapter analyses how design thinking has been applied in Nespresso and the Sudden Coffee, the process and how it is implemented within the organization.



“5 Stages in the Design Thinking Process”, 2017

Design thinking & Innovation

Nespresso Empathise & Define

Nespresso has a passion for quality, innovation and their unique business model allows them to maintain close relationships with their customers. Nespresso is a brand that really understands customer experience and they continuously seek opportunities to interact more deeply and provide innovative and customized services. They have a strong presence on the web using different online platforms in order to interact with users and increase brand awareness. One way to communicate and gain feedback from users is through their membership club “Nespresso club” which has grown into a global brand community for coffee lovers. This community has become very important for Nespresso since it generates useful user information and allows the company to approach users in all stages of the consumer journey. The club members have become their “brand advocates” and Nespresso is having an everyday dialogue with users in order to meet their expectations. (Nestle Nespresso, 2017)

Ideate

In the innovation process Nespresso also involve their users by collaborating and co- creating together. Many users give new suggestions, product ideas and preferences e.g asking for new capsule flavors or services. Nespresso also regularly includes their users in advertising activities e.g asking them to come up with ideas for new TV spots or let them choose between pre-produced TV spots and decide which one should be broadcasted. Nespresso approaches the users and benefits from them in a crowdsourcing manner. Nespresso Club also gives club members a sense of ownership when they are part of crowdsourcing and the R&D (research and development) strategy. (Nespresso report, 2012)

Nespresso also wants to be experiential and get their customers on board by using modern technology to improve the experience both online and offline. Nespresso has developed a fast checkout in store with RFID tags on



Design thinking & Innovation

products. With the RFID solution consumers can reduce their waiting times and increase their customer satisfaction (Schwab 2014). Nespresso has also developed a mobile application that allows users to buy coffee capsules, machines and accessories on the go from their iPhones or iPads (Davis, 2014). Secondly they have launched a new internet-connected coffee machine which will allow users to instruct their machines to brew a cup of coffee to be ready as they wake up. It uses Bluetooth to connect with an app and allows users to select their coffee and brewing techniques. (The Guardian, 2016) The new Vertuo coffee machine gives users the opportunity to get different sized coffees with the same machine. Its intelligent system is able to read the barcode that is on the capsules and adjust its brewing parameters to suit the specific blend and size. (Biggs, 2017)

Prototype & Test

Nespresso also use prototyping and testing in their product design and development process to get feedback quickly. For many years back Nespresso has been working diligently with retailers to encourage in store testing. They have been doing customer trails of the machines and coffee testing to gain feedback from users. According to retailer surveys this has been generating six times as many sales as those merely demonstrating the machines. (Slyvotzky, 2011)

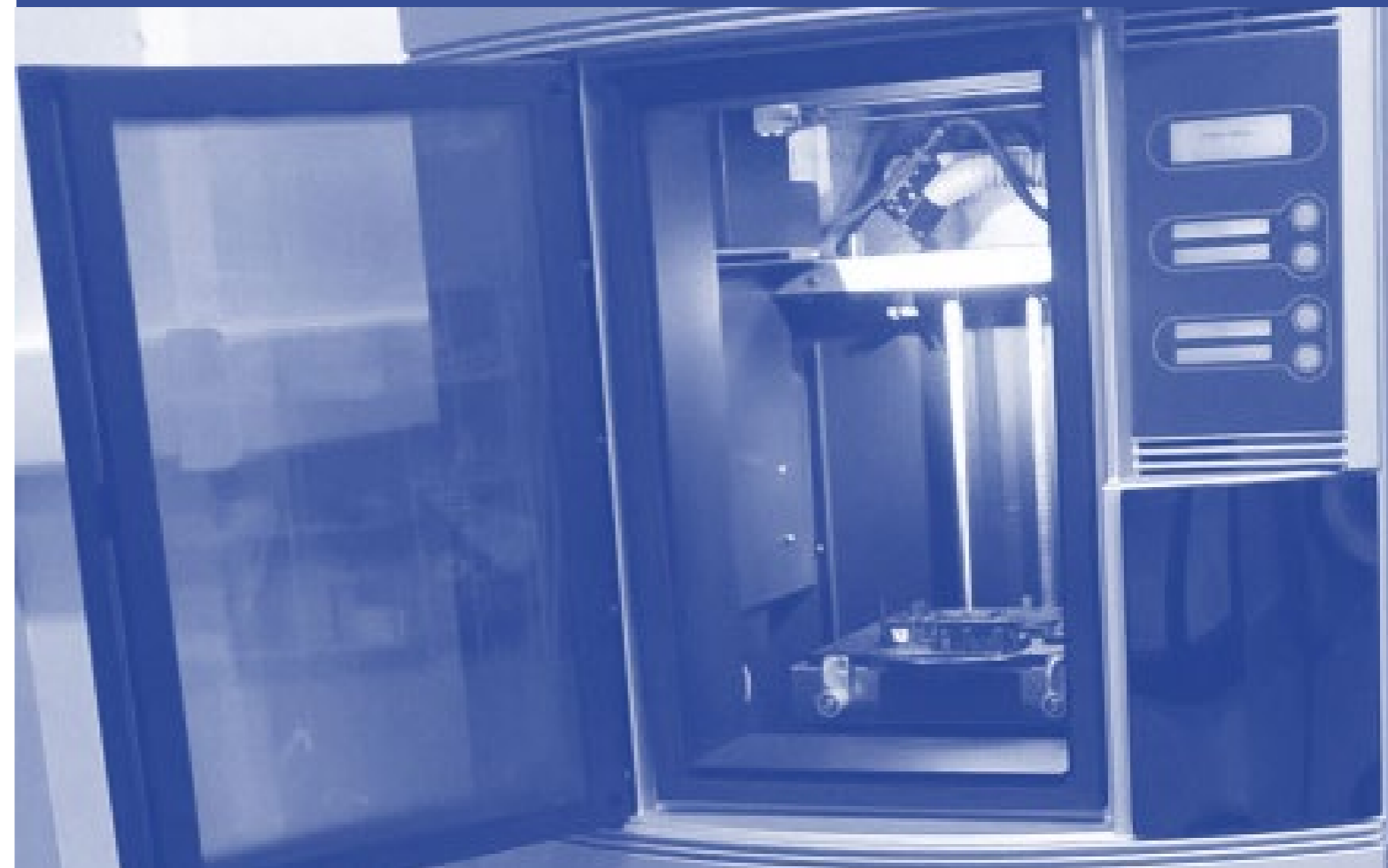
“When you pioneer something new in a market, there is no example, there is no roadmap, so that key thing is that you have to try. Nobody knows what will happen, so the more you try, the more you discover, the faster you learn, the faster you go.”

Nespresso former CEO, Henk Kwakman

Since year 2003 Nespresso's R&D department have been using in-house Dimension 3D printing for its rapid prototyping needs. It allows them to make the most minor changes to models in just a few hours and it has become an advantage that Nespresso can't live without. (Stratatis application story- Case Nespresso, 2017)

“We were the first company in Switzerland to have a machine like this. We wanted to build our models quickly and easily, and we chose a Dimension 3D printer because it met all our expectations and lay within the price range we had set for ourselves.”

*Christian Jarisch R&D Engineer
Nestle Nespresso*



Design thinking & Innovation

The department creates new models everyday and according to their R&D engineer Christian Jarisch their creativity has grown by leaps and they have gotten many new ideas and results from the models that they have created with the printer. (Stratatsys application story- Case Nespresso, 2017)

Conclusions

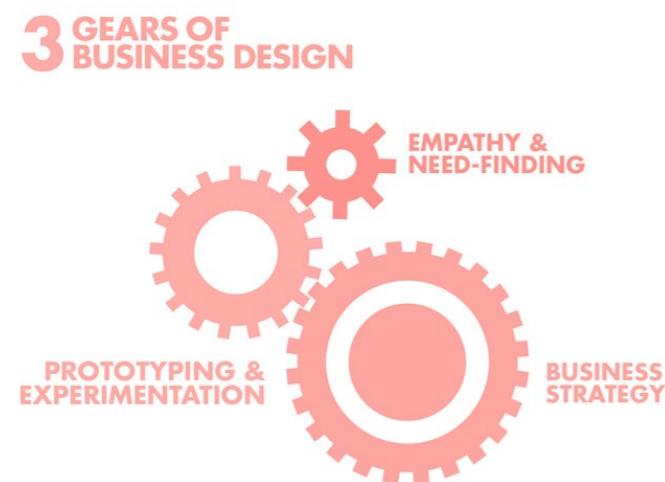
We can assume that Nespresso isn't using design thinking in its actual definition, but the processes they are using in their innovation resembles the design thinking method. This can be seen in how Nespresso tries to understand their users needs by constantly seeking opportunities to interact, empathize and gain feedback from them through their membership club on the web. Nespresso also ideate and co-create with users and benefits from the users in a crowdsourcing manner. It seems that Nespresso also has adopted an approach in prototyping and testing since they have been using a 3D printer since 2003. They build models very quickly and easily and it allows them to make the most minor changes to the models just in a few hours. In our opinion design thinking is a lot about fast testing and customer feedback cycles. But then again, Nespresso's development strategy also resembles the lean thinking process; build, measure and learn.



Design thinking & Innovation

Sudden Coffee Empathise & Define

As in the Heather Fraser's (2009) model of gears of business design, Gear One is deep user understanding ("What is Business Design? - Rotman School of Management", 2017). To have a deep understanding of customer's experience and motivation, empathy is crucial to the human-centered design process. Entrepreneurs should observe like an ethnography, to view the business through customers' eyes and find opportunities in life. This is how Kalle Freese initially came up with the idea when he was on an airplane and served terrible instant coffee.



"What is Business Design? - Rotman School of Management", 2017

The instant coffee has always been related to bad taste and low quality while not all people have the access to good coffee at home. Back then Kalle was running his own coffee shop in Helsinki and knew people's need for good coffee. He gathered the information and saw the huge gap in the market between freshly brewed coffee and instant coffee.

After the empathize and define stage, Kalle decided to fill that hole by making instant coffee delicious and premium coffee easy to get hold of ("This Master Barista Wants to Revolutionize Your Instant Coffee Game", 2017). As an entrepreneur, Kalle incorporated design thinking in the upstream step which enables him to see the problems and imagine solutions to meet customers' needs and optimize the customer experience.

Ideate

This stage aims to generate ideas and innovative solutions. Brainstorm is a technique usually used in the team. While Kalle started out the journey alone, he was actively seeking inspirations and help from the interaction with people around him. In the dinner after a barista event in Prague, Kalle met the world's leading coffee scientist, Chahan Yeretzian, and got a chance to pitch the idea to him ("This Master Barista Wants to Revolutionize Your Instant Coffee Game", 2017). Receiving suggestions and support from Chahan Yeretzian, Kalle started the serious play of Sudden Coffee as a solo founder. He developed the product alone in the first stage and raised \$500k funding from top investors like Lifeline Ventures, Founder Collective, and Caterina Fake. Later on, his advisor Jyri Engeström introduced him to his former employee Joshua — a Stanford graduate and former McKinsey consultant. They clicked right away and after a month of working together, Kalle took Joshua onboard as a co-founder and COO (Zozulya, 2017). The team and the product were further developed afterward.

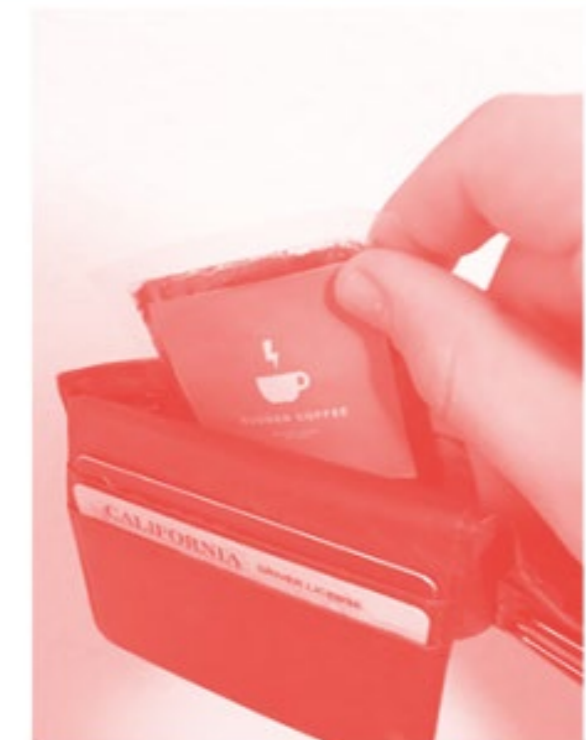
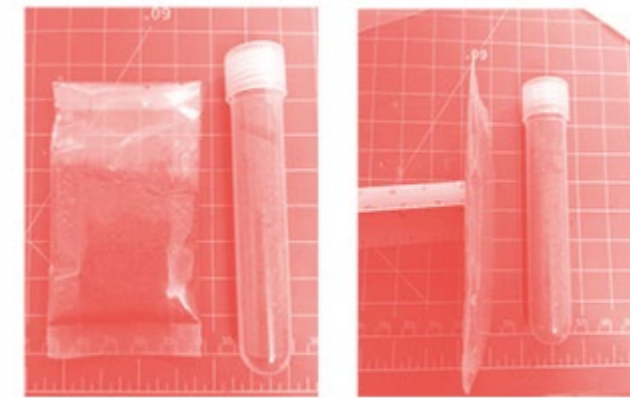
In the ideation stage, Kalle kept an open mind as an effectual thinker and entrepreneur. He began with only questions, a given set of means and goals with no clear answers or alternatives. However, he started out directly and took ideas into action with resources on hand: his own abilities, skills, knowledge and social networks. The plan was made, unmade and revised through action ("What Makes Entrepreneurs Entrepreneurial?", 2017). The ideas were gathered to inspire and generate new and better ideas. In this process, Sudden Coffee was in no hurry to make the decision, but in focus of "going wide", in terms of concepts and outcomes ("Stage 3 in the Design Thinking Process: Ideate", 2017).

Design thinking & Innovation

Prototype & Test

Prototyping and testing is essential to identify the best possible solution for problems identified during the previous stages. Prototypes may be shared and tested within the team itself, or on a small group of people outside the design team (“5 Stages in the Design Thinking Process”, 2017). Sudden Coffee went through the prototyping & testing stage for several months before launching the product in the mass market. It fine-tuned its artisanal coffee with beta customers, as well as opened pop-up shops to collect more feedback (“The Artisanal Instant Coffee Company Sudden Coffee Announced a \$2.7 M Seed Round - Slush 2017”, 2017). Sudden Coffee actively engaged customers in the process and brought their insights into the strategic decision making, to refine the customer’s service and experience.

The whole ideation, prototyping and testing process keeps happening iteratively in Sudden Coffee. In September 2017, Sudden Coffee brought a new, improved product called Sudden 3.0. The new product incorporates better brewing technology, better taste and more intensity (“Introducing Sudden 3.0 - Sudden Coffee Blog”, 2017). Besides the coffee itself, the new package is changed into compostable tubes and labels. The step forward to sustainability is Sudden Coffee’s positive response to questioning from some customers concerning the original plastic tubes. As Sudden Coffee uses an online platform to provide subscription service, it focuses on constantly improving the subscription experience better by connecting to customers in many ways. For example, it builds the Facebook group of Sudden Coffee Club, a private community for Sudden drinkers and encourages members to give feedback, report issues and share thoughts and ideas. In doing so, Sudden Coffee will be able to generate innovation and optimization continually.



Sudden Coffee package prototypes by Designer M. Blaydes

Future Perspective

Nespresso. Why innovate?

The changes in environment are disrupting Nestlé's traditional way of doing business. Nestlé's two brands, Nespresso and Nescafé, have been ruling the instant coffee market for a long time, but their share of the market is decreasing. The German JAB Holdings has bought several coffee related companies taking up an increasing amount of the market and recently also ruling the capsule market. ("Nestle fights to keep coffee crown", 2016).

New ways to thrive the business

Nespresso's patents, which have been an integral method for protecting the company's innovations and even more its lucrative business model, are starting to lose their power. According to Wall Street Journal, the company had 1700 patents for its coffee machine and pod system in 2010. After detecting gaps in Nespresso's patents around 2010, competitors have started invading the market: today there are several companies providing Nespresso compatible coffee pods for consumers like Sara Lee Corp. and Ethical Coffee Co. ("A coffee war presses Nestlé", 2010) Rivals are offering new varieties and flavors, often at a fraction of the price of Nespresso. For instance, Walmart ("Nespresso Capsules", 2017) sells dozens of options for Nespresso machine owners for almost fifth of the price of the original. This phenomenon has started eating away Nespresso's profits ("Nestlé has patent for Nespresso", 2013). Moreover, as Nespresso does not profit from its coffee machines (Matzler, Bailom, von den Eichen & Kohler, 2013) the threat of losing business advantage through expiring patents seems ever more serious.

The once highly profitable business model of Nespresso, a very closed system sustained through patents and branding, is being threatened. The disruptions are calling for actions to innovate, which according to Reuters is being acknowledged within Nespresso. Nestlé's executive vice president in charge of coffee had told investors that being "big doesn't mean you're going to be relevant to the consumer of the future". ("Nestle fights to keep coffee crown", 2016).

Nespresso is experiencing the shift from sustaining growth (Q3) to managing growth (Q4) due to the new innovation of Dolce Gusto from Nestle. Therefore, the company should take into consideration the strategy to grow their business.

Over-confidence

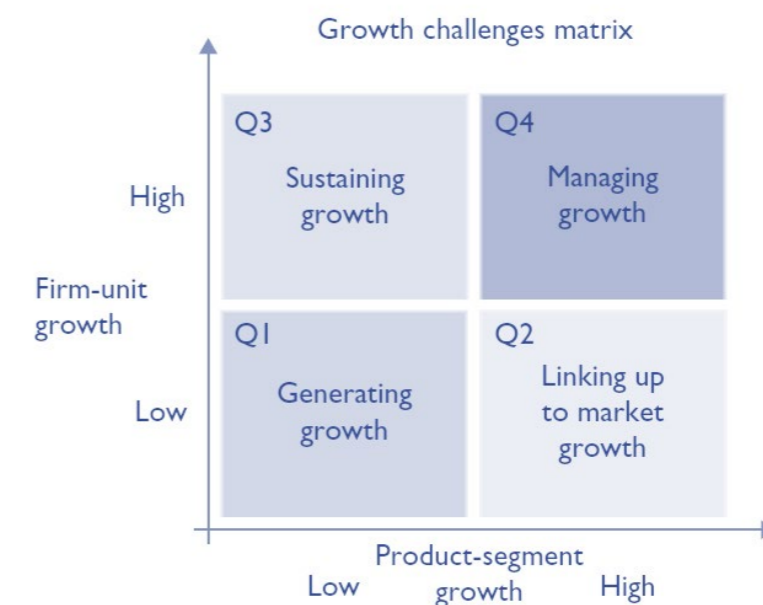
With the current successful business model Nespresso applying in different market segments with Dolce Gusto. Moreover, the current and potential customer of Nespresso might come to Dolce Gusto.

Aggressively entering competitors

There is a risk in new competitors entering the portioned coffee market and turning Nespresso machine obsolete.

Risk of weak company culture

Old and new employees should share the same values of design approach within the organization. Employee training might be needed to keep the same level within the employee's.



The Growth Challenges Matrix, Prats et. al, 2012

Future Perspective

Sudden Coffee

Sudden Coffee currently is transitioning from the phase of generating the growth to Linking up to market growth. According to Sudden Coffee blog, sales in March 2016 made up 1,000 cups and within the year it has increased 75,000 cups. So far the product is still new in the market, there are no direct competitors offering the instant coffee subscription.

Future Challenges

New growth initiatives being blocked due to internal conflicts of interest

Thus, the company should have a strong leader, understand 'who' owns the processes and mitigate the conflicts early on J. Prats et. al. (2012).

Weak strategic partnerships

Sudden Coffee has already had issues with the coffee delivery outside US and had to cancel this service. The startup should look for the partners who could provide reliable service without compromising the service quality.

Increasing direct competition

Benchmark with top-performers within own product-market, try to go beyond. Foster innovation culture and create new product offerings in order to benchmark the market. The Delft Innovation Model (Buijs and Valkenburg, 2003) is a tool that could be used in innovation development as it analyses both the internal and external environment of the company.

Insufficient marketing

Startups have a high chance ending up in a shadow of the big companies due to weak marketing strategies. Sudden Coffee could build partnerships or projects with brands from other industries that could help to raise the awareness about Sudden Coffee. Sudden Coffee could e.g. extend the experience from online to actual coffee boutiques or hubs.

Relatively high price

Customer reviews (The Coffee Concierge, 2017) have rated the price- 4/10 as the weakest point. Sudden Coffee is already taking a good initiative being transparent and communicating the pricing. It has lowered the price since it's launch from 6\$ to 2,5-3\$ per cup (Sudden Coffee blog, 2017). In the future this could be improved even further by lowering the price even more.

Keeping up high quality while scaling up

Challenging on scaling up production while remain high quality of the coffee when the company penetrates the US market and new other markets as well.

Building the customer community

Handling customer feedback and building up the community who are interested in specialty coffee with convenient way of making.

Implementing sustainability actions

Innovating packaging to be more sustainable and involving with the farmers community to ensure the quality and quantity supply for coffee beans. Moreover, the company can promote sustainability by improving the living of the farmers.

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