CSR in the Coffee Industry: Sustainability Issues at Nestlé-Nespresso and Starbucks

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Abstract. The coffee sector’s active engagement with sustainability issues appears to be a relatively new phenomenon. Even newer is the necessity to deal with recycling and waste. Next to the waste produced by the “coffee to go” mobile drinking culture and coffee bars, the popularity of coffee capsules – i.e. single-use containers made of metal or plastics – is creating mountains of waste unknown to the traditional method of brewing coffee. The pioneer in this premium coffee sector has been Nespresso, a subsidiary and brand of the Swiss company Nestlé. Many other companies – from discount retailers to big-brand coffee shop chains like Starbucks – have copied Nespresso’s machine-and-capsule concept, adding to both the popularity and the waste problem. Next to the problem of waste production, coffee companies are addressing the problem of ethical sourcing. A key but by no means the only element is sourcing via “fair trade” schemes. Assuming that finding answers to these sustainability challenges can have a crucial impact on future sales, this article sets out to explore coffee companies’ sustainability programmes, using the examples of Nespresso and Starbucks. It finds that both firms engage in rather similar activities, but some critical differences can be identified. Both firms have a successful record in ethical sourcing. But neither has yet developed convincing waste solutions. Nespresso’s insistence on using aluminium for its capsules remains a critical issue.

Keywords: Aluminium, coffee, consumers, Corporate Social Responsibility (CSR), environment, ethics, Nestlé, Nespresso, recycling, Most Similar Systems Design (MSSD), sourcing, Starbucks, sustainability, waste

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Introduction

The purpose of this case study is to provide an analysis of two coffee company sustainability achievements and conclude with an outlook on further opportunities of action. The article aims to highlight similarities and differences between Nespresso’s and Starbucks’ sustainability initiatives.

Nespresso’s parent company Nestlé offers a wide variety of different products and brands in the food industry, including coffee. Nespresso is probably the most well-known brand of coffee but not Nestlé’s only one. This article will not examine Nestlé’s overall Corporate Social Responsibility (CSR) activities. Instead, it will be specifically focused on coffee sustainability programmes with regard to ethical sourcing and waste reduction. We limit ourselves to comparing Nespresso’s efforts to those of competing firm Starbucks.

Both are very popular brands, both have had an enormous impact on the coffee sector, and both provide a wide range of sustainability communications. This enables us to investigate and compare actions and success, and critically reflect on both firms’ progress.

Rival Starbucks is, of course, a very different company with a different business model. It is mainly known for its chain of coffeehouses, which is far larger and less exclusive than Nespresso’s boutiques. We chose to emphasize the similarities here. Nespresso and Starbucks both market relatively high-priced premium coffee brands through lifestyle appeals and also social and green promises, which partly legitimise the high price and premium image among their customers.

Problem background

Since the 1980s, an oversupply on international coffee markets has caused a strong decline in prices. It has led to shrinking revenues and consequently made cheap production important for most large mainstream coffee companies. Coffee is mostly cultivated in the tropical “bean belt” in Central and South America, Africa, and Asia, i.e. in developing countries where poor working conditions and low wages are common.

Figure 1. World’s coffee “bean belt” with top 20 coffee producing countries in 2011 (Wikimedia Commons, 2013).
The critical market situation has had a negative social impact. Coffee farmers’ working conditions deteriorated; many can be counted as being among the poorest section in the population (International Institute for Sustainable Development, 2003).

In the past two decades, Western consumer awareness of inhumane working conditions and exploitation of farmers has strongly increased. General criticism about environmental pollution and ecological imbalances of coffee production also grew. Simultaneously, consumers in advanced industrial countries started more and more to make conscious buying decisions regarding social and ecological products.

As a result, CSR and sustainability gained importance for coffee companies. Customer satisfaction is indisputably necessary for a successful business performance. CSR activities and programmes that seek to enhance environmental and social sustainability are relatively new. But they have grown rapidly in recent years. To produce sustainable coffee and to introduce specific programmes is, however, rather expensive in terms of money and time. Nevertheless, those efforts are inevitable to stay competitive on the coffee market (International Institute for Sustainable Development, 2003). This is particularly true if a company aims to sell a high-priced premium coffee product on the market – as Nespresso and Starbucks do.

Nespresso

Nestlé-Nespresso has had enormous growth in the past decade. Nespresso started out as a niche product in a very small segment of the coffee market. In the year 2000, the company had sales of €0.14 billion; by 2012, the firm collected €3.6 billion (Statista, 2012).

Nespresso conveys with its brand the image of a high quality and luxury lifestyle product which is green and ecological at the same time. In 2003, the company launched the “AAA Sustainable Quality™ Programme” (in the following, simply AAA programme) in collaboration with the Rainforest Alliance, an international non-governmental organisation which promotes and certifies green agricultural products. Nespresso advertises that, within the programme, it looks for the best resources to produce a high quality product and at the same time manages social and environmental impacts via its business in improving the lives of coffee farmers and their communities (Nespresso, 2013).

The programme concentrates on three areas: quality, sustainability and production. To improve in these areas, Nespresso promises close collaboration with local suppliers with the help of the AAA programme farmers database. This enables the company to trace every bean to individual farms and supervise it in terms of sustainable and ecological production. Within long-term assignments with the farmers, the company offers them extra technical support and training about sustainable productivity as well as financial support. Nespresso advertises improved labour conditions through the AAA programme as well as ecological coffee production by rewarding the farmers if they observe Nespresso’s rules on ecological cultivation. This article will attempt to assess the efficiency of the programme concerning ethical production.

Besides coffee production, ecological issues lie in the final product itself, or more specifically its design and packaging. Nespresso coffee is sold in single-serving capsules of aluminium. One capsule, needed for one cup of coffee, is made of 1.15 grams of aluminium (Lang, 2011). Considering that Nespresso has collected revenues of almost €3 billion in 2012 with billions of capsules, the huge waste problem becomes obvious (Allen, 2013).

The Nespresso customer has the option of returning used capsules in capsule collection stations in Nespresso’s systems boutiques, local waste collection centres, retail outlets, and street collection points. Moreover, Nespresso has arranged with courier companies to enable door-step collection (Nespresso, 2013). It must be emphasized that these options are highly dependent on national and regional recycling and waste collection systems. Even in the EU, recycling schemes and quotas, as well as consumer behaviour, vary greatly.

Starbucks

Starbucks can be said to have a rather differentiated sustainability programme. It is very broad and will therefore be only briefly summarised for the purpose of comparing with Nespresso. Like Nespresso, Starbucks communicates that it focuses on three main problem areas in sustainability. The topics “community” and “ethical sourcing” deal with the enhancement of farmers’ and workers’ labour conditions as well as sustainable ecological production of coffee, tea and cocoa. The topic “environment” concentrates on climate change and waste reduction (Starbucks, 2013).

All three fields are subdivided into specific goals which have been set for the upcoming year 2015 and are clearly defined by numbers. One goal, for example, is to ensure that coffee is 100 percent ethically sourced by 2015. Starbucks states that it takes “a holistic approach using responsible purchasing practices, farmer loans and forest conservation programmes.” (Starbucks 1, 2013). Starbucks proceeds, in collaboration with the environmental non-profit organisation Conservation International, with the “C.A.F.E.” (Coffee and Farmer Equity) practices. This programme sets guidelines to guarantee environmental and social improvements in coffee cultivation. These guidelines imply measurable standards that focus on the quality of the product, economic accountability, social responsibility and environmental leadership. C.A.F.E. measures are being evaluated and supervised by independent third parties (Starbucks 1, 2013). Starbucks publishes further details about programme and processes in a yearly Global Responsibility Report.

Starbucks’s waste problem is significant. But the capsule waste problem is rather new. The company introduced a machine-and-capsule system, Verismo, only in late 2012, promising that Starbucks quality can be comfortably brewed at home. Unlike Nespresso’s capsules, Starbucks’ pods are made of plastic. Starbucks offers no collection system in its stores nor elsewhere but relies on public recycling schemes in the countries where it sells the Verismo system. As a newcomer to the market, Starbucks has been less in the focus of criticism. However, it should be kept in mind that the chain’s stores produce a great amount of other packaging waste: satchet cartons, cardboard boxes, milk jugs, syrup bottles, and like garbage. In addition, stores produce plenty of spent coffee grounds and food waste. Starbucks plans to improve its recycling system, for example recycled packaging and front-of-store recycling bins. But the company admits that effective recycling is a challenge. Nevertheless, the company has measurable guidelines for reducing waste (Starbucks 2, 2013).

Both Nespresso and Starbucks apparently invest much effort. But what is the effective outcome?

Measurable sustainability?

Cultivating coffee requires warm and humid climate conditions. Thus, coffee cultivating geographical regions can be found in the “bean belt,” the subtropical equatorial sphere of the planet (Mitchell, 1988). Coffee-producing countries are commonly considered to be developing countries. They are characterised by distinctly low incomes and a significant economic share of the agricultural sector. Western consumers in advanced industrialised nations are aware of this, and they hold multinational corporations accountable for their performance in developing countries. Consequently, coffee sourcing companies like Nespresso and Starbucks are faced with increasing demands for responsible and sustainable business activities in these developing countries.
Responsibility in business actions originally arises out of the underlying economic principle by which business ought to satisfy the needs of the company owner. This usually means satisfactory financial figures of sales and profit. A satisfactory overall business performance, however, is significantly linked to effectively satisfying the needs of the customers. Companies that fail to acknowledge and engage in customer demands for responsible and sustainable business activities will thus act against their idea. In consequence, responding to customer needs and demands will serve the owner’s interest after all and therefore require a company to actively pursue responsibility – arising out of property and profit considerations.

To effectively compare Nespresso’s and Starbucks’ sustainability activities, the Most Similar Systems Design (MSSD) is applied here. There are a number of variables that can be immediately highlighted as similarities: The business branch of interest is the coffee sector. Both companies are characterised by a worldwide known brand name. In terms of overall business profile, both Nespresso and Starbucks run cafés where they serve coffee embedded in a modern lifestyle statement. Besides the cafés, both companies sell their coffee for private use. This private use may, moreover, be extended by specifically custom-made machines pouring coffee via capsules. Both firms appear to be quite active in CSR policy, with a focus on sourcing. Coffee sourcing touches the sensitive issue of large, rich companies actively pursuing business in developing countries where environmental and social standards typically are different from those set in the companies’ major consumer market countries.

As for Nespresso’s ethical sourcing AAA programme, its three pillars have already been mentioned: quality, sustainability – in terms of respect for people and the environment – and productivity with regards to enhanced farm management. Nespresso aims for best performances in all of those three fields – this is what the triple “A” grade stands for. The programme’s social and environmental standards – being applicable for all participating partnering farms – have been collaboratively developed with the Rainforest Alliance, an environmental NGO.

Starbucks’ ethical sourcing programme builds on its C.A.F.E. (Coffee and Farmer Equity) practices. These have been developed with Conservation International. The initiative is to implement C.A.F.E. practices across partnering farms targets quality and environmental concerns (Starbucks, 2012).

Both programmes involve financial incentives – as market price premiums – for farmers who comply with the policies. While Starbucks clearly references amounts of ethically sourced coffee out of its total amount of coffee sourced, Nespresso refers to a relative amount of its coffee sourced through the AAA programme (Starbucks Corporation, 2013; Nestlé Nespresso). Searching for total numbers from Nespresso proved to be rather difficult compared to Starbucks’ reports.

Nespresso launched its AAA programme in 2003. It documents its progress on a website, highlighting milestones achieved during the past decade of action and implementation. Starbucks started its ethical sourcing initiative five years later. The firm presents the programme’s progress since 2008 and offers a whole-period Ethical Sourcing Factsheet as well more recent progress on the company website.

Progress reports reveal the most essential difference between these two sustainability programmes. While Starbucks explicitly states a long-term goal by when it wants to have achieved a goal of 100 percent ethical sourcing, Nespresso simply lacks such a corresponding goal, or at least does not communicate it. Failing to provide a long-term measurable goal on crucial issues that a company pursues on a self-binding basis must provoke consumers’ doubt on Nespresso’s sincerity and commitment. The promise to continuously increasing the share of ethically sourced coffee without an officially set goal seems half-hearted. Moreover, it does not serve transparency and easy information access for interested parties.

Both companies demonstrate sustainability efforts. Both worked out instruments of measuring and certification – which finally lead to a calculation of ratios in terms of ethical coffee sourced – in cooperation with certain NGOs. The certificate itself – promoted as external independent judgment – needs to be critically assessed. Consumers buying certified ethical coffee should pay critical attention to organisation, funding and intentions behind a certificate. But most consumers, it may be said, rely on a certificate label without knowing details about it, and seldom make the effort to investigate.

**Challenges and improvement**

Nespresso and Starbucks set out to make a value chain of coffee more sustainable by introducing strategic models, i.e. Nespresso’s AAA and Starbucks’ C.A.F.E. However, within market changing conditions of the global coffee market, these objectives are not without challenges. This section will attempt to lay out key challenges and develop recommendations to deal with them and improve strategy.

It is commonly argued that what we consider “sustainable” coffee today might not be sustainable coffee tomorrow. These concepts are constantly evolving. It is necessary to continuously adapt to new issues. Firms have to adjust their sustainability to changing environment and market conditions in order to lead the business in responsible way.

So Nespresso extended its 2003 AAA programme in 2009 by introducing “Ecolaboration.” This expansion specifically addresses the areas of coffee sourcing, carbon footprint reduction, and capsule recycling. However, the problem associated with waste production is still effectively unsolved – while the market opportunities and volume of capsule sales have grown very fast, much faster than any collection and recycling schemes could be brought to deliver convincing answers.

Certification of ethical sources as a (partial) solution to the sourcing challenge has found no parallel in the waste challenge. Coffee harvests sold to these companies have been made more sustainable, but the packaged product still needs to be made more sustainable.

Relating to ethical sourcing, Nespresso’s aim has been to source 80 percent of its coffee from the Nespresso AAA programme by the end of 2013 (Nestlé Nespresso, 2013). Starbucks claims that 90 percent of its coffee has been ethically sourced through C.A.F.E. by end of 2012 (Starbucks Corporation, 2013). Both of these programmes seem to be working – if the information is reliable and truthful. Looking back at the historic record is more challenging. On its website, Nespresso does not provide year-by-year reports of achievements. It is rather difficult to find information about the percentage of ethically sourced coffee in particular years. This is a matter of transparency, and Nespresso can and should do better to match its own – and the parent company’s – CSR ambitions.

Over the years of Nespresso’s success, the waste problem has emerged more prominently, in two ways. Most critics are concerned with the sheer amount of capsule waste which, unless separated and recycled, goes with household waste straight to a waste incinerator or landfill. Secondly, a growing number of critics point to the more Nespresso-unique issue of aluminium usage. As mentioned before, pods are made of aluminium. The extraction and processing of this popular light metal has considerable influence on the environment.

It may be, as Nespresso insists, a perfect material for keeping aroma, and is technically perfectly recyclable. But the problem lies in getting small household aluminium waste to recycling. It is a well-known challenge also for aluminium foil, yoghurt lids and miniature packaging of all sorts. In addition, aluminium production is highly energy consuming and emissions generating. Its refining produces hazardous waste (“red sludge”) from bauxite ore. Finally, open-pit bauxite mining – mostly pursued in developing countries – has received

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criticism for ecological destruction. For all of these reasons, the steep increase of aluminium usage for coffee capsules is no less problematic than the fast growth of the use of aluminium beverage cans since the 1970s.

Nespresso’s Ecolaboration initiative has much to say about the need for and the merits of aluminium recycling. Nespresso is working with aluminium industry stakeholders, who are also improving their CSR. Eventually they may come up with a sustainable aluminium certificate like for ethical coffee sourcing – but this is still in the clouds. Nespresso also likes to talk about progress on its “recycling capacity.” In 2013, Nespresso reported it had “attained a recycling capacity of 100% in eight of its markets.” This sounds great until one figures that recycling rates, for which no data is provided at all, would be something quite different. Nespresso’s “capacity” metric is about theoretical potential; it refers to the percentage of capsules sold to Nespresso consumers who have accessible collection options for their used capsules for the purpose of recycling. (Nespresso, 2013)

This is not really meaningful. The same goes for the announcement that the firm now has 20,000 collection points in 24 markets (but Nespresso is present in 60 countries). Potential does not equate real accomplishment. If Nespresso is serious about “perfecting of the packaging solution,” as it claims, reduction of aluminium as raw material should be immediately applied or should be completely replaced by a more ecological system of packaging.

Ironically, it is former Nespresso CEO Jean-Paul Gaillard with his firm, Ethical Coffee Company (ECC), that is – after winning legal fights against Nespresso – now marketing a biodegradable fibre-and-cornstarch “Esprimo” capsule as the eco-friendly alternative to original Nespresso pods, at a lower price (Biliantits, 2013).

All conventional competitors have capsules made of plastic. Even Nestlé itself sells a plastic pod: the standard for its Dolce Gusto machines, a lower-priced mass-market product also available in supermarkets. Dolce Gusto and Nespresso are incompatible. Nespresso, however, sticks to the more exclusive, shiny metal pod – obviously not only for technical or quality but brand-image reasons.

Recycling aluminium capsules has turned out to be a delicate issue. It is extremely difficult for Nespresso to be responsible about aluminium. In the majority of countries where no working system of collecting, sorting and separating (by special high-tech machines, as in Germany’s Green Dot system) aluminium waste exists, the customer has to take uncomfortable extra responsibilities to dispose of used pods.

Notably, the market success of coffee capsules has been based on the promise of convenience in brewing a perfect cup. A cumbersome recycling process is unlikely to make customers happy. More convenience could be offered if the Nespresso drinker could drop the waste at a nearby store. But there is a catch: Nespresso sells its pods only in a big-city boutiques and by mail, phone and online order. A dense network of collection points can only be established if non-Nespresso outlet chains – such as supermarkets Carrefour or Rewe – become involved. They will not implement this service for free. They would need an incentive to set up exchange programmes. This comes at extra cost. But a sense of responsibility for the environment could be created, perhaps even customer satisfaction for making a contribution. Realistically, customers’ environmental consciousness and idealism alone are no guarantee that this scheme may work.

In addition, the customer’s purse should be addressed. Nespresso could choose between various options, e.g. the awarding of tokens to customers or participation in bonus systems, such as the Payback loyalty program maintained by Loyalty Partner (American Express Group). The Nespresso customer could collect a fixed number of Payback points and receive, upon reaching a certain value, free selection of benefits, i.e. vouchers or products. Even a Nespresso internal points system with its own log-in account and online entry of codes is conceivable.

Since national markets differ not only in regard to technical recycling opportunities but also cultural differences (recycling is, after all, an attitude and behaviour issue), Nespresso has no choice but to invent and implement culture-specific solutions. As studies and rankings such as the Environmental Performance Index (Yale University, 2014) show, countries across the world and also in Europe are almost never the same in their dedication to environmental and conservation causes. Nespresso schemes will work better or worse across nations. Overall, it may prove to be impossible to solve the aluminium recycling challenge in a satisfactory way across all markets. If that happens, switching to alternative capsules may ultimately be the only sustainable solution.

Adapting the ongoing CSR programme carries greater expenditure but also requires management stamina, ambition and entrepreneurial risk-taking. For example, committing supermarket chains to take part in this project is likely to be difficult because they do not carry Nespresso products. What if no partners can be found? What if supermarkets refuse to get involved? How would partners for the collection network be selected? How to draw the necessary awareness of the customer and steer behaviour? What if the customer does not accept the recycling concept out of inconvenience?

Changes always involve risks, and this includes failure. But changes can be seen as an opportunity. Now that many market rivals copy Nespresso’s capsule system, the firm is under pressure to show that its original premium coffee products live up to the brand’s special quality and sustainability promises. This marketing challenge can and should be connected to adapting its CSR programme. Clearer and more measurable commitments may help. On the other hand, more fixed commitments may also harm the company immensely if failing to comply. It is no easy task to define the criteria by which the firm sets out to be held accountable for. But as Starbucks demonstrates with its stricter criteria and mandatory deadlines, it is doable.

Adapted, improved CSR programmes of course hold intangible assets which can be turned to marketing communication advantages – in all kinds of media channels and advertising campaigns. The conscious consumer, particularly the one with the upscale profile Nespresso aims for, reacts to pay a premium quality and lifestyle – pays a lot of attention towards ethical sourcing and waste disposal. An increasing number of people are willing to spend more money for sustainable products. Nespresso can take advantage of its achievements and attract even more customers in the future by communicating its success in CSR and its willingness to act fully responsibly. Starbucks, of course, has similar challenges to answer. It too experiences strong competition, and its commitment to sustainability has raised many concerns for the future. While its commitment to sustainability has raised many concerns for the future. While its ethical sourcing record looks commendable, its recycling policy leaves much room for improvement. Now being a participant in the capsule market,星巴克also has to work on the wider questions on waste all of the coffee industry geared to profiting from the capsule market has to answer, too.

Conclusion

Nespresso and Starbucks both deal with similar problems. Nespresso has outshone its competitors and also its own past, by coming out bold and transparent about some of its commitments and transparency on its CSR engagement in ethical sourcing. But both have working models which can probably deliver on 100 percent in the near future. When it comes to the big issue of waste reduction, these two rather upscale coffee providers are not as successful. Their solutions for improvements seem rather poor. Both companies grapple with the problem of waste reduction and will need to address this issue increasingly in the future. Specifically, Nespresso’s
aluminium pods pose a general question of whether the product should stay as it is. If it does, then the creation of a well-performing recycling system is a must. The ideas presented here are just initial recommendations that need to expanded and elaborated. Long-term goals must be set which include the development of eco-friendly capsules. If the capsule market continues to grow as it currently does, the mountains of waste created cannot be ignored any longer. Consumers may love capsules individually, but, as society, will demand better answers.

References


