

Nestlé sues over Nespresso patents

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The premium coffee wars hotted up on Tuesday as Nestlé said it had taken legal action against rival Sarah Lee over alleged patent infringement of its fast growing Nespresso brand.

The Swiss foods group said it welcomed fair competition. "But we will always take appropriate steps to defend our intellectual property rights when these have been infringed."

Nestlé declined to provide details about the case because of the "ongoing legal proceedings".

Legal steps had become increasingly likely as rival products came onto the market and Nestlé - which says it has 1,700 patents protecting the brand - defended its turf.

In recent months, Jean-Paul Gaillard, a former Nespresso chief, launched his Ethical Coffee Co, while Sarah Lee introduced L'Or Espresso. Nestlé's action covers only Sarah Lee in France, where L'Or Espresso was launched last April.

Sarah Lee denied infringing any patents. It said: "We are confident that our product complies with all legal and regulatory requirements, and are confident about the outcome of this case."

The US group says it is focused on making L'Or's French launch a success and has not revealed further plans. But it added: "We think it has potential on a global scale."

Analysts were not surprised by Nestlé's response, given Nespresso's rapid growth and high margins. Sales jumped 22 per cent to SFr2.77bn last year, with Nespresso aiming for SFr3bn this year.

James Amoroso, an industry consultant, said: "Other coffee manufacturers have all tried to launch their own machines and have failed to match the delivery quality of Nespresso."

"Sarah Lee and others are now trying to piggy-back the system that Nestlé has taken decades to establish with the associated high investment costs".

Nestlé has been moving to expand Nespresso beyond its European roots, using both extensive advertising and a growing chain of prominently placed coffee boutiques to boost sales. While business is done mainly via the internet, coffee capsules and makers are also available at the boutiques.

Nespresso is believed to be extremely profitable, although Nestlé has always declined to reveal figures.

In 2009 the group opened a second capsule production plant at Avenches in Switzerland, significantly boosting output, and hinted at plans for further expansion.

That came sooner than expected, with the group last month announcing it would further develop Avenches to double capacity on completion in 2012 to 8.8bn capsules a year from 4.8bn, and bring total investment at Avenches to more than SFr400m. Separately, some 4.1bn capsules a year are made at the original Orbe production site.