Accelerating Growth through Innovation and Premiumization

Kohzoh Takaoka
Chief Executive Officer
Nestlé Japan
Nestlé Japan: *Delivering growth in aging and shrinking developed market*

**Population (mio.)**

- 2015: 125 mio.

**% <65 yrs people**

- 1980: 60%
- 2015: 30%

**GDP (JPY Tri.)**

- 1980: 100
- 2015: 120

**GDP deflator (index: 2005=100)**

- 1980: 110
- 2015: 60

*Sources: IMF, Cabinet Office*
Nestlé Japan: *Food and Beverages delivering solid growth*

CAGR (11-15) + 3.4%
Nestlé Japan: **Strong Improvement of profitability in Food and Beverages**

+44% vs. 2011
Japan: Aging population / changing lifestyles driving shift to single households

Increasing single / couple households (% of households)

.sources: Statistics Bureau, Ministry of Internal Affairs and Communication
Japan: Single households driving shift from family to individual consumption

<table>
<thead>
<tr>
<th>Traditional</th>
<th>Now and Future</th>
<th>General vs. single household eating expenditure</th>
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<tbody>
<tr>
<td>Family</td>
<td>Single</td>
<td>% of total household food expenditure</td>
</tr>
<tr>
<td>In-home cooking</td>
<td>Prepared</td>
<td>OOH</td>
</tr>
</tbody>
</table>

- General household: 18%
- Single household: 32%

Total household expenditure:
- General household (excl. single): 18%
- Single household: 32%
- Eating-out expenditure (¥K/year/person):
  - General: 50
  - Single: 161

Source: Nikkei Business, MIC
### Nestlé Japan: *Accelerating growth in the 21st century*

<table>
<thead>
<tr>
<th>New Reality</th>
<th>New Customer Problem</th>
<th>Solution</th>
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<tbody>
<tr>
<td>Individual coffee consumption</td>
<td>Preparation for each cup of coffee is troublesome</td>
<td>System solution</td>
</tr>
<tr>
<td>Shift to Out-of-home</td>
<td>Non-availability of good-quality coffee in offices at affordable price</td>
<td><em>Nescafé Ambassador</em></td>
</tr>
</tbody>
</table>
Nescafé single serve systems: Solving single household problems

Nescafé Gold Blend Barista

Nescafé Dolce Gusto
To provide coffee in offices with affordable price per cup

To energize communication in many communities

To co-create new values with NESCAFÉ Ambassador

NESCAFÉ Ambassador: Innovating how we work with consumers OOH
“NESCAFÉ Ambassador”
Nescafé Ambassador: Innovating how we work with consumers OOH

- 250,000 ambassadors
- Serving 2.5 mio people every day
- 1 billion cups served in 2015
The New Reality in Japan: *Price polarization in the FMCG Market*

Chocolatier vs National Brand
Nestlé Japan: Accelerating growth in the 21st century

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<td>Luxury chocolatier chocolates are booming</td>
<td>National brands being commoditized having no craftsmanship</td>
<td>Kit Kat STUDIO in collaboration with local chocolatier</td>
</tr>
</tbody>
</table>
Kit Kat Chocolatory: Introducing craftsmanship to national brands

1,500 JPY/kg

28,600 JPY/kg
Kit Kat Chocolatory: Enhanced availability through e-Commerce

- Gift wrapping, message card
- Multiple flavour assortment gift box
- Packaging engraving service
- Laser engraved chocolate
Innovation & Renovation offer customers new solutions

- New business model (beyond products)
- Digital
Further Innovation & Renovation to come

NESCAFÉ Dolce Gusto matcha Green Tea

New System Solution by IoT
Nescafé Dolce Gusto Matcha Green Tea

“Real” Japanese product using traditional techniques available in single serve
# New System Solution by IoT

## IBM Watson powered

<table>
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<tr>
<th>Big Data &amp; Analytics</th>
<th>Artificial Intelligence</th>
<th>Cognitive Knowledge</th>
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#### Connecting people

- **Tama II 2016 launch**
- **EC Purchase support**
- **Maintenance support**

**Connection hub to enrich NESCAFÉ experience In-home and Out-of-home**
<table>
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<tr>
<th>Key Takeaways</th>
<th>Description</th>
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</table>
| **1** | **NEW REALITY – CHANGE IN CONSUMERS PROBLEMS**  
New reality changes the problems of our consumers and offers the possibility to develop true innovations through delivering of new solutions |
| **2** | **INNOVATION BEYOND PRODUCTS – INTERNET & AI**  
Internet and Artificial Intelligence allows us to solve our consumers new problems and delivers growth opportunity |
| **3** | **INNOVATION BEYOND PRODUCTS – NEW BUSINESS MODEL**  
*NESCAFÉ Ambassador*: Bringing good-quality coffee, in a convenient way and at affordable prices into the office environment |
| **4** | **PREMIUMIZATION – CHOCOLATORY**  
The combination of national brands and craftsmanship offers new opportunities to deliver more value to our consumers |