# Illy Company Description

About Illy Company background and description. The history of illycaffe is linked to the lives of the company’s founder, Francesco Illy, and his family. Francesco in 1933 set up a business in the cocoa and coffee sector, and then decided to concentrate exclusively on coffee. Nowadays the illy group is made up of several companies located in North America, France, Germany, Spain and Benelux.

Product Illy serves coffee to its customers. They insist on the fact that there are not selling basic coffees but the one which is a result of Scientifics’ research.

They want to serve the best coffee due to a result of a long experience, knowledge of coffee biology and chemistry, very good skill at roasting, enabling technologies, and also a family’s entrepreneurial passion. They are also selling products which fit to the coffee world like, machines, capsules and also accessories. Revenue In 2007 turnover amounted to $221. 000. 000. In 2011 the turnover was $342. 000. 000. There is a real increase over the years. Customers 70% of its sales circuit cafes, hotels and restaurants, 20% for individuals and 10% in companies, these are illy’s customers.

Illy has developed solutions for small restaurants, small hotels, cafes and other places of conviviality where coffee consumption is low but still want a perfect coffee. The company offers machines meeting the needs of its business customers. To match with its image of unique coffee Illy is increasing partnerships with the biggest names in tourism Meridien and Hyatt. The company also Illy customers offices, employees may have during their break espresso from the brand. To do this, Illy provides the I-Espresso and offers a complete range.

Also Illy own its own bars called “Illy bar”, so the customer can go there and have a coffee in the company’s atmosphere. It is also possible to buy coffee brand for personal use at home. The website offers the purchase of cafe, cafe machine but also derivatives (eg cups). Most of its customers are the professionals (served in more than 50,000 public places) but Illy is developing the “Illy’s bar” to create an atmosphere for the company. Location Illycaffe was founded in Trieste in Italy. Nowadays the Illy group is a multinational organization that operates in more than 140 countries across the 5 continents.

The main markets for Illy are US, Europe and Japan. Employees The company has about 700 employees. Industry With a turnover of € 695 million and a growth of over 30% per year since 2001, the European leader in espresso is Nespresso. The level of competition that Illy faces differs according to the sectors, for example in the Hotel, Restaurant and Cafe sector the main competitors are Starbucks and Lavazza. Whilst in the coffee machines and coffee capsule systems the main competitor is Nespresso from Nestle group. The competition in both sectors is quite intense with Starbucks and Nestle having global reach.

The advantages these companies have over Illy are their vast economies of scale, stronger brands and higher customer reach.

**Mission and vision**

* **The mission**: produce and deliver the best coffee that nature can offer for connoisseurs and those who will appreciate it with a special attention to methods of growing and processing the most suitable and sustainable. They want to create an emotional experience through the degustation of their coffee.
* **The** **vision**: being an innovative company, proud of its history rooted in the contemporary and future-oriented. Combine art, science and experience to offer the best products. They have for vision to be recognized as a world reference for coffee culture and excellence, to be the first choice of professionals.

**Values**

Passion for excellence, the pursuit of perfection and ethics, the valuation of individual talent and teamwork. The desire to improve the lives of all those involved in the coffee chain. Attention to people and the environment.

**SWOT Analysis**

**Strength**

* Strong retail store operations: 50,000+ events in which illy is involved annually worldwide and more than 6 million cups are consumed each day.
* Wide geographic presence: 140: countries where illy is available
* Top-quality final product:
  + 4 major certifications for quality and sustainability,
  + 4 company-founded research facilities,
  + 4 of 8 major worldwide coffee industry innovations. This is a known and appreciated throughout the world for high quality and unique taste. The company has followed a strategy, which has a high focus on quality and consistency of their products
* Experience: created in 1933
* Innovation: The first pressurized packaging, came in 1934, just one year after the company’s founding. By adding inert nitrogen gas under pressure, an oxygen-free environment forms as illy cans are sealed, preserving essential aromas and promoting mingling of coffee’s naturally occurring oils. Result: coffee that not only stays fresher longer than under any other packaging method, but whose flavor is actually enhanced over time by its surroundings. The second, came just one year later, in 1935 the Illetta, precursor of the modern espresso machine that, for the first time, separated pressure and heating elements.

Result:

* Espresso that is consistently round, rich and balanced, not bitter or burnt-tasting. 1974 saw illy’s third revolutionary invention: pre-tamped, pre-dosed, expertly ground espresso in single serve paper pods.
* Delightful espresso in reach of anyone, anywhere – at home, at the office, or at a favorite cafe or restaurant. The system, called ESE (Easy Serving Espresso) became an industry standard. – Another strength is the strong supply chain right from the coffee bean farmers to the suppliers, Illy has maintained strict quality control and good relations creating value for everyone involved.

**Weaknesses**

Sluggish growth rate / Investments needed (coffee machines that support the proprietary)

**Opportunities**

* Business expansions: Illy includes:
  + Domori – premium chocolate (acquired July 2006)
  + Dammann Freres – the legendary French purveyor of tea (March 2007)
  + Mastrojanni – critically lauded winery in Montalcino, Italy – (September 2008)
  + Agrimontana – high- quality jams and marron glace (stake acquired December, 2005)
* Rising hotel and food service industry in Italy:
  + Rising trends in coffee exports: 56% share of illy coffee enjoyed outside of Italy,
  + 200+ espressamente illy coffee bar locations worldwide with 10% rate growth market (been recognized from the market as the dominating market)
* Scientific research: genetics, agronomy, botany, physics, mathematics, chemistry, biochemistry, biology, engineering, physiology and psychology. All areas explored in the four laboratories illy.
* Quality and sustainability: Sustainability has three-fold implication on illy: economic, social and environmental. Ready to drink coffee business partnering with Coca Cola will attract global customers and create newer segments for the company’s products There is a need to create a strategy for the developing economies especially the BRICs (Brazil, Russia, India and China) which will in future become key markets.

**Threats**

* Highly competitive market :
  + Key competitors: Caffee Negro Group, Luigi Lavazza, Segafredo Zanetti, Starbucks Corporation
  + Risk of battle in dominating the market by multinationals: Nespresso
  + Economic crisis: Most of the global markets including nearly all the major markets that Illy perates in have suffered from recent credit crisis and economic downturn
  + While expanding globally the major risk involved is the supply of high quality premium coffee beans
  + The inconsistency in the growth of the sister brands and their chare in the portfolio creates a real threat of losing these brands at some point if they get totally overshadowed by the coffee business. At this point, Illy needs to consider the growth rate and growing strategies of these newly acquired brands to keep them profitable.

## What is the real problem this company facing? And how you identify it?

Make the coffee supply chain more equitable and coffee better tasting, in other words:

**How to become more responsible (sustainable) coffee producer without losing the revenues/ customers / quality.**

From the user story and current coffee market situation where all big coffee companies are moving towards sustainability of supply chain, and greater awareness of the customers about these issues nowadays can give a coffee company additional competitive advantage.

## Which part of business components need improvement? Why?

Supply chain. This business components handle most part where the company problem is, sustainable supply & chain.

## What kind of company transformation that might help the company to strife in the market?

According to the Brundtland report: “Sustainable development is development that meets the needs of the present without compromising the ability of future generations to meet their own needs. In relation to coffee business Acting Responsibly involves a complex activity spread over whole supply chain:

* Environmentally related: bear in mind environmental impacts of coffee production (“technified” or mono-culture growing practices impact, rain forests, pesticides, waste water and etc.
* Social aspects: well-being of farmers and their families (minimum fair price limits, no price dumping, child labor prevention)
* Business-wise: when all actions and decisions taken are analyzed in terms of long-term goals of the company, current and future benefits for stakeholders and preserving viability of the company. With responsible business and supply chain model in mind a multinational like Illy might choose one of few alternative pathways:

## Propose an idea/ideas to create a new product

This involves responsible purchasing strategy – control and assessment on the level of bigger supply chain units – cooperatives/processing plants/exporters. Does not require complete reengineering of whole supply chain or additional costs related to separate farmers support/educational programs.

More time consuming – selection, assessment of existing and new suppliers might take time. Does not really fit with Illy, since its strategy has always been close work with separate farmers. From bottom to top strategy – every level of supply chain needs to be re-thought.

Company needs to realize the importance of each individual farmer (f. ex through payment of Fair trade or responsible farming bonuses to ensure the sustainable existence of farmer communities), not only use quality control (Illy is already working with ISO quality control standards) but rather keep an eye on whole production and processing process. Morevoer, the efficiency of packing, logistics and transportation should be analyzed and improved – which will result in eliminating or reducing the costly, non-environmentally-friendly steps.

But doing this Illy might incur additional costs (because now it will have to pay more for raw material), which can however be offset not at the expense of the “responsible” customer (who is ready to pay more for responsibly produced coffee), but rather through improving the efficiency of the whole supply chain, which will reduce the average COGS. This strategy involves extensive cooperation with all other stakeholders in coffee business – working on and adhering to commonly accepted quality and sustainability standards (like Fair Trade label, Utz coffee, RA and etc. , cooperation with local research institutes to introduce better and more sustainable farming practices for growers, or even bringing together all main players like Sara Lee, Nestle and the European branch of Kraft did in 2002 by creating of the Common Code for the Coffee Community, a multi-stakeholder initiative aimed at increasing sustainability and responsibility awareness in the coffee sector.

## How do you propose the solution?

We do not want any satisficing decision, we want to optimize the whole system – company has a lot of strengths, we can use them to build up more powerful structure. We want our customers to get only the best coffee, but we also want to do it responsibly. If there is any decision to be taken, which will involve not only additional costs or revenue growth, but also extensive long-run improvement of the whole business model, we will chose this decision.

Improve the technology and introduce Integrated Process Management to cut production and logistics costs and reduce business complexity to offset the costs of high quality coffee. The company buys coffee beans directly from farmers that reduce the higher prices in the spot market. The shipping and the supply of coffee beans from farmers to the company is carried out by company under strict supervision and inspections. This shows that the bargaining power of suppliers is low with company’s commitments to provide higher quality coffee to the customers.

There is a need to create a strategy for the developing economies especially the BRICs (Brazil, Russia, India and China) which will in future become key markets. A safe bet would be to create an alliance with a local partner who has expertise in the local markets, cultures and politics for example in India and China which are very big geographically, population-wise and culture-wise the local partner will add immense value in launching and growing the Illy products in a way that best suits that particular market.