PRACTICE CASE 07-2:

**BUSINESS ACUMEN**

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Andrea Illy is CEO of the global premium coffee company that bears his family’s name. As one might expect, he is passionate about coffee – its science, its health benefits, its taste, its beauty. Illy also has a dream that someday soon the coffee market might be transformed into something approaching the market for wine. Where connoisseurs discuss the fine points of various origin coffees and blends, where customers are willing to pay a premium for the finest examples of the coffee-making art, and where the growers, roasters and baristas will be compensated fairly for the expertise they contribute to every cup.

Unfortunately, the current coffee market differs from such an ideal. Coffee growers in most parts of the globe work at a barely subsistence level. One bad harvest (made all the more likely by the ravages of climate change) or a sudden decline in the commodity price of coffee can drop them below subsistence to hunger. Even in good times, growers have little incentive to improve their operation – they have minor contact with the roasters or customers and no knowledge of how their crops get translated into the cup. This disadvantages not only the grower but also the consumer – coffee sourced from good quality beans is hard to find.

Illy believes that the solution to the sad state of affairs is to initiate a “virtuous circle” that draws the grower, the roaster, the barista and customer together. Growers with better knowledge of the market will work to improve their crops or experiment with new varieties. Roasters and preparers will educate their customers as to the qualities of various beans, roasts and preparations. Customers, in turn, will be willing to pay more for the best beans and that premium will be sent back up the chain to pay for even more quality and variety. And so on.

Certainly there have been some positive signs. Indeed, many observers argued that a “third-wave” of transformation in the coffee market was already starting. (The first wave is said to have occurred when Maxwell House and Folgers made coffee a mass commodity, the second wave when Starbucks initiated a move to quality and higher prices.) Specialty coffee roasters had worked to build cafes and brands around origin-based beans sold directly to the roasters without reference to the commodity prices of coffee. With these third-wave roasters, every coffee came with a story of its origins and growers could count on occasionally eye-popping premiums for their beans.

As yet, specialty coffee represented a small sliver of the overall market and there were other signs that it might not ever grow beyond a small circle. New trends like coffee-based drinks and single-portion coffee in pods (e.g. K-cups, Nespresso) actually shifted more of the value-added towards roasters without a premium for growers. A consolidation was taking place among mass roasters that was even sweeping-up third-wave roasters in its wake. Observers argued that could lead to greater uniformity with even less emphasis on origin-based, direct-traded coffee.

Illy’s hope is that someone would come up with an innovation that would solidify the beginnings of the third wave and help reshape the market. Such a change would not necessarily have to involve illycaffè; Andrea Illy believes as the world’s premium brand, an increased emphasis on quality in the market would only help his company. The most important thing was to make the coffee supply chain more equitable and coffee better-tasting.

1. **What is the real problem this company facing? And how do you identify it?**

As stated in the last paragraph of Illy’s story. The most important problem that the company is facing is the coffee supply chain that currently is not very equitable. From the paragraph Illy stated that the industry of coffee beverages still having a problem with the supply chain method that is used to distribute the coffee to each regions. The current method is very traditional and couldn’t catch up with the growing demand of fine coffee, coffees that are currently produced by the coffee farms are not really well cared so bad coffee can happen sometimes. The way to identify these problems can be done from reading the statements written in the paragraph above.

1. **Which part of business components need improvement? Why?**

From the problem above we can conclude that the part of business component that really need improvement the most is the operations part of the business components, the logistic part specifically. By having a better and not so outdated logistic Illy’s company will competitive edge over other companies, if the planning process as well as the implementation of efficient and effective storage of the will help a better flow and transportation of fine grained coffees from the warehouse to the consumer.

1. **What kind of company transformation that might help the company to strive in the market?**

The kind of company transformation that might help Illy’s company to strive in the market is the transformation of combining the supply chain (logistic) with the RnD team to create a better way to improve the flow of the fine grained coffee in the market to Illy’s company. Combining the Logistic and RnD team in the company will provide a competitive edge for Illy’s company against other organizations. This way the team can provide a system or process by which customer’s coffee needs can be fulfilled in a more efficient manner. Illy’s company can provide shipments of coffee in a more accurate and fast manner than competitors do.

1. **Propose an idea/ideas to create a new product**

The new product based on the idea proposed above is to create a centralized fine grained coffee center where we can gather different coffee farmers from different part of the world, together they’ll socioeconomically empower each others and by facilitating the partnerships between them and the major international coffee distributor will increase environmental robustness on the farm to create new sources of revenue throughout the supply chain. This will be the mutualism symbiosis between the farmers, distributors and the companies who need the fine grained coffee in the first place.

1. **How do you propose the solution?**

The proposed solution is based on the fact that Illy’s company really need a better and sustainable way of supply chain to actually have a revenue increase and better management of the company’s products (in this case the coffee itself). The proposed solution can be done by first creating the centralized fine grained coffee center as mentioned in the Q4.