POLITECNICO DI TORINO

Master of Science in
Engineering and Management

Master's Degree Thesis

Analysis of the increasing importance of visibility materials in marketing strategies of the coffee industry.

Case study: Luigi Lavazza S.p.A.

Supervisor:
Prof. Luigi Benfratello

Candidate:
Alice Orsi

Company tutor:
Dott. Alessandro Gonella

Academic Year 2019/2020

representation
is vital
otherwise the butterfly
surrounded by a group of moths
unable to see itself
will keep trying to become the moth

Rupi Kaur

Acknowledgements

I wish to express my sincere appreciation to my supervisor Professor Luigi Benfratello, for the interest demonstrated in the subject of this thesis, for his precious inputs to my reasonings and for having trusted me in the development of this work.

My deepest gratitude goes also to my company tutors Alessandro Gonella, Alessandra G.Serriello and Nadia Pesce, who have continuously supported me with their professionality both in data gathering and taking me through the understanding of company dynamics, but especially for their moral support and friendship.
I'd take advantage of this space for thanking them for having been so engaging and supportive also in the seven months I spent doing my internship in Lavazza, it has been an experience I will always bring with me.

I would like to thank the city of Turin, that gave me the chance to deeply know and express myself and where I found a place I can call home and all the loyal friends that I have the chance to meet there, who made the study path more pleasant.
Thank to Stefano, who believes in me and always pushes me beyond, my results would not have been the same without his presence by my side.
A special thanks goes to my dearest friends in Genoa, who despite the distance, have always been close to me.

Words would never be enough to thank my family, that has made all this possible, that trusts me more than I do and proudly celebrates every my success.

Torino, 13th July 2020

Disclaimer:

Many of the data used for the development of this thesis work are confidential and exclusive property of Luigi Lavazza S.p.A.
For this reason, although many data have been used for the analysis that follows, only some figures can be explicitly published.

TABLE OF CONTENTS

Acknowledgements 4

TABLE OF CONTENTS 8

TABLE OF FIGURES 10

Abbreviation Dictionary 12

ABSTRACT 14

1. Introduction 16
   - 1.1. Marketing 16
   - 1.1.1. The Customer journey 18
   - 1.1.2. Brand Equity and Brand Awareness 19
   - 1.1.3. Touchpoints 24
   - 1.1.3.1. Touchpoints met in the customer journey 27
   - 1.2. Value delivery network 29

2. The coffee industry 32
   - 2.1. Overview 32
   - 2.2. Marketing strategy 34
   - 2.2.1. Channels 34
   - 2.2.2. The importance of the POS 37
   - 2.2.2.1. Visibility materials as investment 40

3. Luigi Lavazza S.p.A. 42
   - 3.1. Company overview 42
   - 3.2. Lavazza marketing strategy 44
   - 3.2.1. Targeting the POS 47

4. Lavazza Visibility materials 50
   - 4.1. Lavazza POS and relative visibility materials 50
   - 4.1.1. Distribution strategy of visibility materials 53
   - 4.2. Choice of visibility materials: analysis of new activations trend 54

5. Demand Planning 58
   - 5.1. The department and its tools 58
   - 5.2. Visibility materials and stock clusters 62

5.3. Supply chain management: subsidiaries and distributors ... 64
5.4. Sales rolling forecast activity ... 65
5.4.1. Sales forecast of visibility materials ... 67
5.4.2. The Complexity Index ... 70
5.4.3. Contingency management ... 73
6. Conclusions ... 78
References: ... 81

TABLE OF FIGURES

Figure 1.1 The marketing process: value creation 16
Figure 1.2 Managing marketing strategy and the marketing m 18
Figure 1.3 Factor influencing consumer behavior........ 18
Figure 1.4 The customer journey 19
Figure 1.5 Keller’s model: CBBE........ 20
Figure 1.6 The Brand Equity ten........ 20
Figure 1.7 Aaker’s model: Five assets 20
Figure 1.8 Best Global Brands ranking, 2019 21
Figure 1.9 Global RepTrak ranking, 2019 21
Figure 1.10 Multichannel customer experience 23
Figure 1.11 Brand touchpoints: wheel framework 25
Figure 1.12 Brand touchpoints and customer decision making process 25
Figure 1.13 Customer journey map........ 26
Figure 1.14 Brand touchpoints with timeline........ 26
Figure 1.15 Brand touchpoints with timeline........ 26
Figure 1.16 Brand touchpoints: awareness........ 27
Figure 1.17Brand touchpoints: consideration........ 27
Figure 1.18 Brand touchpoints: purchasing 28
Figure 1.19 Consumer and business marketing channels........ 30
Figure 2.1 Coffee lifecycle 32
Figure 2.2 Top coffee importer worldwide 33
Figure 2.3 Incidence of AFH consumption over total consumption in food&beverage sector........ 35
Figure 2.4 Coffee industry channels, boundaries of the thesis........ 36
Figure 2.5 Pillars of STPD marketing strategy 36
Figure 2.6 Reasons of choice of POS the day of the interview........ 38
Figure 2.7 Respondents who remember POS visual communication 39
Figure 2.8 Results of interview on brand awareness 40
Figure 3.1 Lavazza strategic building pillars 45
Figure 3.2 Sustainability Development Goals in Lavazza 46
Figure 3.3 Lavazza Segmentation pyramid: association blend-POS-visibility materials 48
Figure 3.4 Lavazza association blend-POS targeting........ 49
Figure 4.1The iconic design of the cup by C.Caramel 50
Figure 4.2 Indoor visibility materials........ 51
Figure 4.3 Visibility materials for the activation of a Tierra POS........ 51
Figure 4.4 Lavazza post-Covid recovery kit 52
Figure 4.5 Pos as interface between coffee and consumer 54
Figure 4.6 Screenshot from the spot "Lavazza a Modo Mio", 2019........ 56
Figure 4.7 Screenshot from the spot "More than italian",2019 56
Figure 5.1 HQ Demand Planning as interface department 65
Figure 5.2 Rolling forecast process........ 66
Figure 5.3 Rolling forecast mechanism 67
Figure 5.4 Lavazza visibility materials: Calendar events 68
Figure 5.5 Lavazza visibility materials: Activation plans........ 69
Figure 5.6 Factors determining the demand of visibility materials 70
Figure 5.7 Portfolio of visibility materials AFH, per complexity........ 72
Figure 5.8 CDMI excerpt of a portfolio analysis per CI........ 72

Abbreviation Dictionary

AFH	Away From Home
AMA	American Marketing Association
B2B	Business to Business
B2C	Business to Consumer
BA	Brand Awareness
BAV	Brand Asset Valuation
BE	Brand Equity
BoD	Board of Directors
CDMI	Collaborative Demand Management and Intelligence
CI	Complexity Index
CRM	Customer Relationship Management
CSR	Corporate Social Responsibility
FMCG	Fast Moving Consumer Goods
FOC	Free of Charge
FS	Food Service
GDO	Grande Distribuzione Organizzata (ITA)
GDS	Grande Distribuzione Specializzata (ITA)
HoReCa	Hotel, Restaurant, Café/Catering
HQ	Headquarter
ICO	International Coffee Organization
KPI	Key Performance Indicator
MCM	Multichannel Customer Management
MOQ	Minimum Order Quantity
OCS	Office Coffee Service
POS	Point of sales
PR	Public Relations
SKU	Stock keeping unit
STPD	Segmentation, Targeting, Positioning, Differentiation

ABSTRACT

We live in a world where we are continuously exposed to images, advertisements, logos at the fast pace of consumerism.

Everything seems to pass through, without leaving a mark. It is nothing like that.

To get in the head of the consumer and impress him is the aim of the marketing plan of companies, mainly those in the Fast-Moving Consumer Goods (FMCG) industry.

The instruments to obtain that are many and different one from another and the strategy especially depends on the product industry, on the market and on target consumers, but the outcome is always uncertain, given the high subjectivity of consumers' behavior.

Among marketing strategies, communication plays a fundamental role: the consumer should associate the brand with the values of the company and with the quality of the offered product/service.

Everything that constitutes a contact with the potential consumer is said "touchpoint"; among the touchpoints "visibility materials" are worth a deeper analysis.

This thesis will focus on the instrument of visibility materials and their application in the coffee market, bringing as case study the related strategy of Luigi Lavazza S.p.A, among the market leaders.

The discussion will lead to the understanding of the importance of the instrument in terms of building customer loyalty, together with consolidating the relationship with the points of sale, through the analysis of cost pricing and activation strategies.

Furthermore, an analysis of the management of the marketing instrument will be conducted from the point of view of HQ Demand Planning, department that is particularly significant because it acts as bridge between the Marketing department (that develops the marketing plan) and the production.

Demand Planning has been a relevant observation point to understand the evolution of visibility materials and their increasing importance in last years.

1. Introduction

The first part of this thesis is focused on understanding the importance of marketing activities to build a pleasant customer journey, in a way that he wants to repeat the experience and becomes attached to the brand, as bearer of company's values. This strategy is carried out by brand touchpoints, among which visibility materials have a strong impact on visual communication.

After an introduction of marketing concepts, the following chapters will focus on the instrument of visibility materials in the industry of coffee, where the high competition and the need of continuously attracting consumers require massive investments in targeted marketing actions.

Then, by means of a case study, the effectiveness of the instrument, applied to boost performances in the direction of the company's strategic plan, will be analyzed for the market leader company Luigi Lavazza S.p.A.

1.1. Marketing

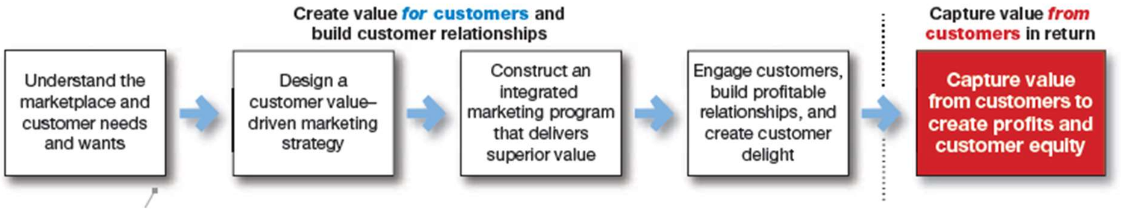
The definition of marketing is continuously adapting to an ever-changing world, in which the concept is applied every day in different facets and in different fields.

The first definition dates back to 1985 when the American Marketing Association (AMA) defined marketing as "*the process of planning and executing the conception, pricing, promotion, and distribution of ideas, goods, and services to create exchanges that satisfy individual and organizational goals*", while the more recent definition, approved by AMA in 2017, states: "*marketing is the activity, set of institutions, and processes for creating, communicating, delivering, and exchanging offerings that have value for customers, clients, partners, and society at large.*"[1]

What emerges is the social aim of the discipline and the strict connection with the relationship with customers as source of value exchange, this explains why understanding the market and its needs is at the basis of marketing strategy of a firm (fig.1.1).

Successful strategies are based on creating a full brand experience for consumers, by selling not only the product itself but a real unforgettable journey.

Figure 1.1 The marketing process: value creation


Create value for customers and build customer relationships
Capture value from customers in return
Understand the marketplace and customer needs and wants
Design a customer value–driven marketing strategy
Construct an integrated marketing program that delivers superior value
Engage customers, build profitable relationships, and create customer delight
Capture value from customers to create profits and customer equity

Marketing mix models, targeting, positioning, segmentation

In order to reach the goals of creating a profitable relationship with customers, various frameworks have been developed in theory, all of these models define the the so called *marketing mix* and companies deploy it in their marketing strategy.

The term "marketing" has been coined by Neil H.Borden, professor emeritus of marketing and advertising at the Harvard Business School, following the definition of his colleague professor J. Culliton, who described the business executive as a "mixer of ingredients" and then this concept has been developed in the 1950s-60s, spread through the article of Borden "The concept of the marketing mix" written in 1964, in which he explained how marketing has not unique rules to success, but starting with a series of common elements, each manager should follow its own strategy by blending the constituents and obtaining a singular receipt.[2]

In the years that followed the articles, marketing studies were focused on the search of those "common basic ingredients", they have been defined and, as one can imagine, they also have changed over time, together with the evolution of the subject.

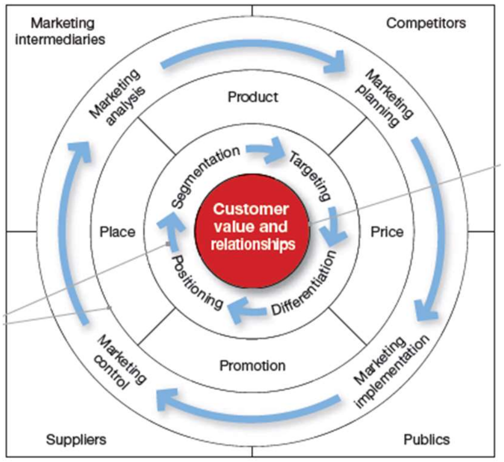
The commonly used model is called "4Ps"(McCarthy, 1978), that represent those strategies developed by a using a mix of: Product, Price, Place and Promotion and it is mainly product-focused; another model, that is taking hold, reflecting the shift of interests from supplier to buyer side, is the customer-driven "4Cs" model (Kotler, 1984), based on: Customer, Cost, Convenience and Communication ingredients.

Despite the wide differences among the starting elements, both methods require a defined market strategy to understand and convince the customer; the most used method is the one performed through segmentation, targeting, positioning and differentiation (STPD) (fig.1.2).

According to this method, these steps should be taken sequentially: first it is fundamental to identify which are the predominant characteristics of the market, that are the most critical, valuable and determinant for the company, with respect to the product, and to segment the market on the base of them (market analysis), while to target means to choose which segment-s to address and serve (demand analysis).

Differentiation and positioning should be intended relatively to the competitors: how to distinguish and gain competitive advantage and decide on what to focus and direct decisions in order to attract the chosen segment-s (Internal analysis): is your product a commodity? is it for a niche? is your consumer cost or quality driven? How large and spread is the market you compete in? Which are the channels to use for its commercialization? How is the supply chain extended? Which are the touchpoints with the consumers? How much advertising impacts on customer's behaviour? And finally, how is your consumer engaged and retained?[3]

Figure 1.2 Managing marketing strategy and the marketing m


Marketing intermediaries
Competitors
Suppliers
Publics
Marketing analysis
Marketing planning
Marketing implementation
Marketing control
Product
Price
Promotion
Place
Segmentation
Targeting
Differentiation
Positioning
Customer value and relationships

ix

1.1.1. The Customer journey

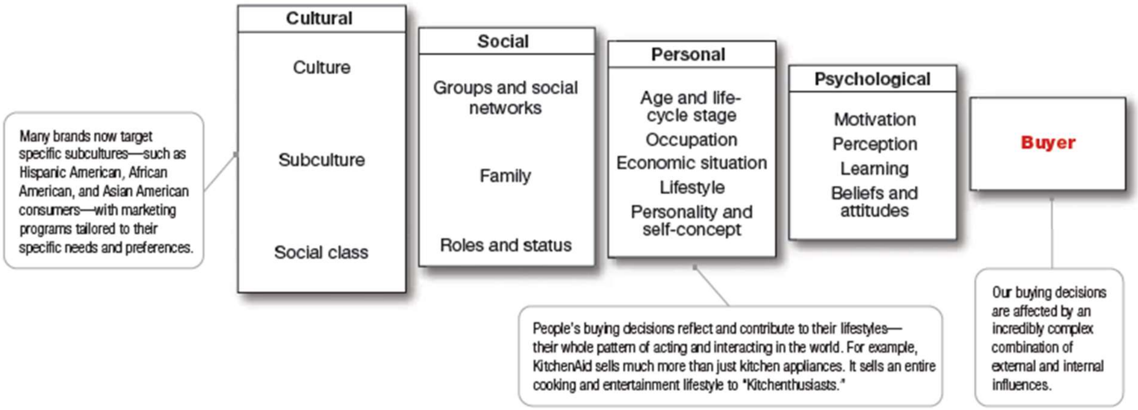
Why should a potential buyer choose exactly your product? How does the choice happen?

Consumer behavior is complex to be determined, forecasted and then managed, mainly because it is irrational and because it is motivated by cultural, social, personal and psychological factors, that are not easy to be identified in real life and they are only partially influenced by the firm (fig. 1.3).

Positioning, segmentation and targeting are aimed to reduce the variance of cultural, social and personal aspects, by identifying people united by the same factors and tailoring strategies and products to their specific needs.

However, interactions and many other external variables, that play a role in the choice, are so unique that no model can explain the phenomenon completely, leading to infinite combinations of unexplainable behaviors.

Figure 1.3 Factor influencing consumer behavior


Cultural
Culture
Subculture
Social class
Social
Groups and social networks
Family
Roles and status
Personal
Age and life-cycle stage
Occupation
Economic situation
Lifestyle
Personality and self-concept
Psychological
Motivation
Perception
Learning
Beliefs and attitudes
Buyer

Many brands now target specific subcultures—such as Hispanic American, African American, and Asian American consumers—with marketing programs tailored to their specific needs and preferences.

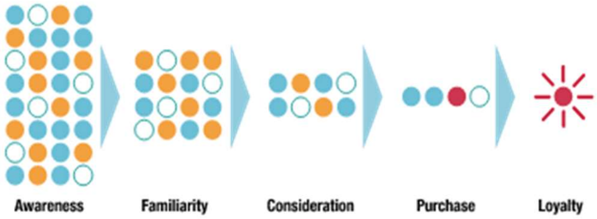
People's buying decisions reflect and contribute to their lifestyles—their whole pattern of acting and interacting in the world. For example, KitchenAid sells much more than just kitchen appliances. It sells an entire cooking and entertainment lifestyle to "Kitchenthusiasts."

Our buying decisions are affected by an incredibly complex combination of external and internal influences.

Marketing, instead, comes along to act on psychological factors, by creating a unique experience for the customer and by embodying shared values. [4]

The decision-making activity of the buyer is dynamic, it evolves over time together with the knowledge of the firm, in what is called *customer journey* (fig 1.4). Customer purchasing experience can be described as a funnel that starts with the brand awareness and terminates with the retention of the loyal customer.[5]

Figure 1.4 The customer journey



To understand how this relationship evolves, the concepts of brand equity and of its components are required.

1.1.2. Brand Equity and Brand Awareness

Brand Equity (BE) is an intangible asset of firms, the strength and the prestige that the brand has built over time through the adopted marketing strategies. Brand equity has direct effect on the value of the product and financially speaking can be also defined as the additional (or deducted) value of a product that comes from the perception of the consumer of the brand and not from particular physical characteristics of the product itself.

This means that brand equity leads to potentially higher willingness to pay of the consumer: given the same but unbranded product (same cost of production and same quality), the firm with positive BE is able to sell it at higher price (price premium), gaining a superior margin.

Many interpretations and explanations about how brand equity is built and how it influences customer decision-making choices are emerged in literature, here the two most diffused will be briefly treated.

- The “Five assets model” (David Aaker, 1991) (fig. 1.5)

According to Aaker, brand equity is explained through its “antecedents” or “components”: brand loyalty, brand awareness, perceived quality, brand association and other proprietary assets (mainly represented by competitive advantage), this model puts the stress of the results on company’s efforts in marketing strategy, resulting in these components.

- “Keller’s model”, also known as the “Customer-Based Brand Equity (CBBE) model” (Kevin Lane Keller, 1993) (fig.1.6)

In this approach, brand equity comes from the personal experience of the customer with the company, result is explained by consumers behavior and attitude towards the brand, still influenced by the company’s choices; Keller represented his model as a pyramid, that, from bottom to top, can resemble the customer journey funnel, made up of six elements, that are the steps from the awareness of the consumer, who identifies the salient aspects of the brand, passing through a rational (performances and judgments) or emotional (imagery and feeling) experience, up to the loyalty (resonance). Simultaneously, firm, to accompany its consumers, should start from building brand identity (bottom) in order to end up, climbing, with the maintaining of a solid relationship buyer-brand (on the top).[6][7]

Other models have been developed in more recent years, adapting and integrating the versions of Keller or Aaker

Figure 1.7 Aaker's model: Five assets

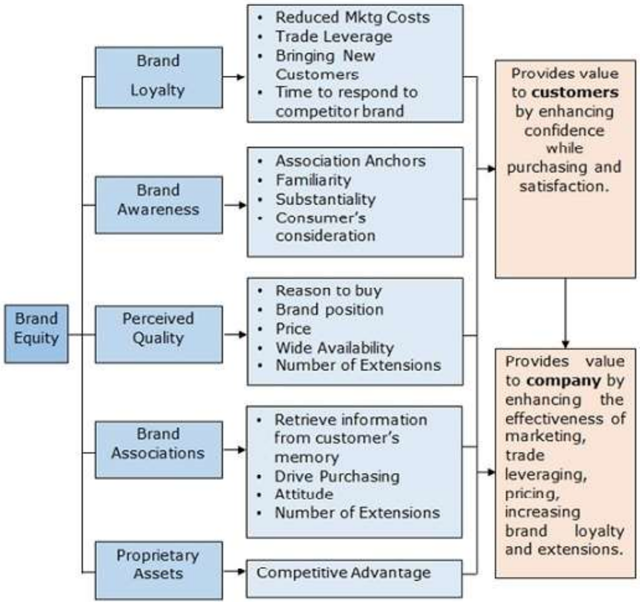

Brand Equity
Brand Loyalty
Brand Awareness
Perceived Quality
Brand Associations
Proprietary Assets
Reduced Mktg Costs
Trade Leverage
Bringing New Customers
Time to respond to competitor brand
Association Anchors
Familiarity
Substantiality
Consumer's consideration
Reason to buy
Brand position
Price
Wide Availability
Number of Extensions
Retrieve information from customer's memory
Drive Purchasing
Attitude
Number of Extensions
Competitive Advantage
Provides value to customers by enhancing confidence while purchasing and satisfaction.
Provides value to company by enhancing the effectiveness of marketing, trade leveraging, pricing, increasing brand loyalty and extensions.

Figure 1.5 Keller's model: CBBE

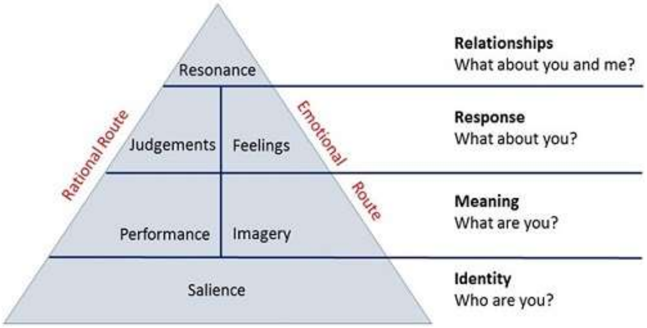
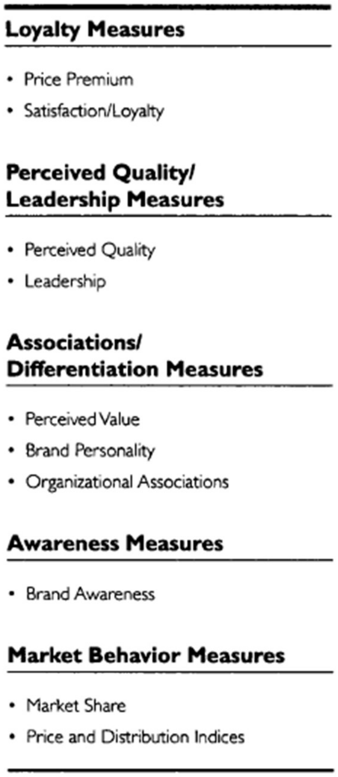

Resonance
Judgements
Feelings
Performance
Imagery
Salience
Rational Route
Emotional Route
Relationships
What about you and me?
Response
What about you?
Meaning
What are you?
Identity
Who are you?

Figure 1.6 The Brand Equity ten



Loyalty Measures

- Price Premium
- Satisfaction/Loyalty

Perceived Quality/ Leadership Measures

- Perceived Quality
- Leadership

Associations/ Differentiation Measures

- Perceived Value
- Brand Personality
- Organizational Associations

Awareness Measures

- Brand Awareness

Market Behavior Measures

- Market Share
- Price and Distribution Indices

Following literature approach, for which BE is something attached to the brand, but at the same time developed in a unique way in each single consumer, a spontaneous question can be raised: How can a company measure its brand equity and compare it with those of competitors?

As the two previous models show, there is not just a single factor to be considered when dealing with brand equity, moreover, most of the relevant aspects are not even measurable.

The same author of the 5 assets model, Aaker, proposed the identification of the fundamental measures "the brand equity ten": 10 dimensions grouped in 5 categories, that in some way mirror its model (fig. 1.7).

The idea is to construct a model based on weights given to the different measures, and try to obtain relevant answer from questionnaires to consumers. The most difficult part is to find measurable dimensions for all the variables, to structure questions for customers and also to decide appropriate weights on the basis of market and products.

Then, at the author has been asked if it was possible to choose one single measure and his answer was: <<The price premium may be the best single measure of brand equity available because, in most contexts, any driver of brand equity should affect the price premium. The price premium thus becomes a reasonable summary of the strength of the brand>>.

The answer should not surprise, since we can see that it is reflected also in the definition of brand equity. [8][9][10][11]

Nowadays, different indexes have been developed by multinational companies, aimed at establish a ranking in terms of brand strength. Their methods are secret, but every year the top ranking is publicly available.

The most widespread are:

- Best Global Brands valuation, the ranking draw up by Interbrand, taking into account three key components: an analysis of the financial performance of the branded products or services, of the role the brand plays in purchase decisions, and of the brand's competitive strength (since 1988) (fig.1.8).[12]
- Brand Asset Valuation (BAV) tool, developed by Young and Rubicam's, it computes brand vitality based on four measures: differentiation, relevance, esteem and knowledge (since 1993).[13]
- BrandZ valuation tool, based on Millward Brown's brand equity database (since 2006). [14]
- Rep Track Pulse score, by Brand Reputation Institute, that measures reputation and then strength of firm based on on four attributes: esteem, trust, admire and feeling (since 2006) (fig 1.9).[15]

Figure 1.8Best Global Brands ranking, 2019

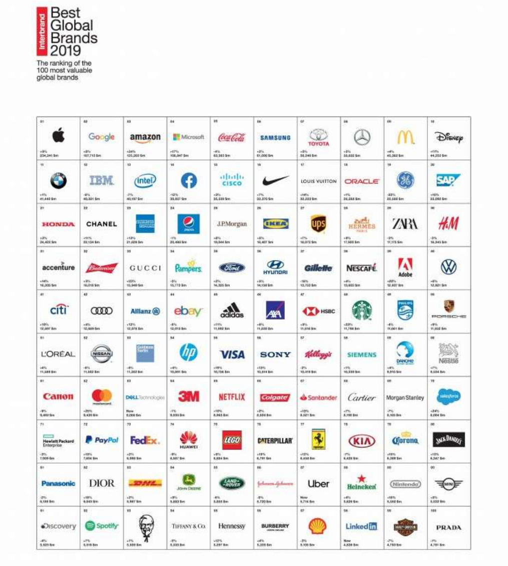


Figure 1.9 Global RepTrak ranking, 2019

Coming back to the customer journey, with more consciousness about its importance, marketing theories agree that it all starts with *brand awareness*, one of the fundamental dimensions of brand equity.

Brand awareness can be defined as the extent to which a customer is able to recognize a brand, and the way he is able to relate it to the offered products/services by the firm.

There are two main aspects of awareness that are worth to stress: brand recall and brand recognition.

Brand recall - prior to purchase point - is the ability of consumer to come up with the name of the brand given the product category. (e.g. one needs a coffee and recalls Lavazza and Nespresso brands)

Brand recognition - at purchase point - is the ability of the buyer to identify a brand just by looking at the product/service and to easily distinguish it from the others, be it for colors, packaging, other visual elements, jingles,... even without remembering the name of the brand.

(e.g. when you are in the aisle of supermarket related to a product category and you are able to identify the brand just by the colors or shape of the packaging)

Brand awareness allows the brand to easily be part of the consideration set: a further step in the customer journey, of which products taken into account for final purchase belong.

When these factors are present, it is likely that the consumer, at the moment of purchase decision, would opt for the product whose brand of which is aware.

This also because brand awareness reduces the perceived purchasing risk (play it safe).

It is fundamental that a firm understands the importance of focus marketing strategy in strengthening the relationship with the consumer, leveraging brand awareness as first step towards purchasing decision and loyalty. This can be done by putting effort in advertising and in customer relationship management.

Customer Relationship Management and Multichannel Customer Management

Customer relationship management (CRM) is a combination of technologies (system), people (marketing analysts) and practices (processes) aimed at a deeper understanding of the company's potential customer, managing existing relationships and retain customers.

CRM system is based on data analysis and the improvements in this field in latest years, have made this discipline increasingly important among marketing functions.

The tool basically translates customer inputs (answers to questionnaires, telephone recorded interviews,...) into information, used to boost and direct possible company actions.

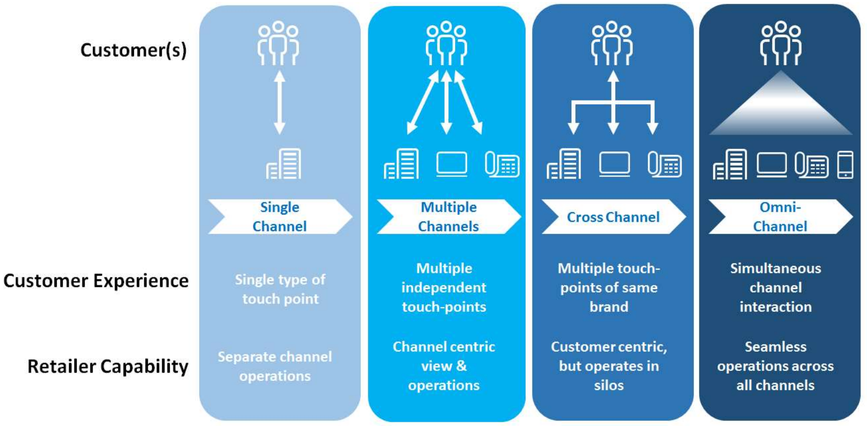
Data about interaction and satisfaction are collected throughout the entire customer journey and on the different channels and touchpoints the interactions take place.

Beyond data about needs and their fulfillment, a firm may use the system to gather data about personal information, purchasing habits and history, preferences, suggestions and other interesting data, that can help with the outline of the consumers and can facilitate targeting and positioning.

The relationship between a company and its customer can develop in multiple ways both offline and online, that are called “channels”: these are the chances offered to the customer to come in contact with the firm and make a purchase, *channels can be distribution c. and communication c.,* they include the brick-and-mortar stores and e-commerce sites, direct mails, social media, catalogs, online marketplaces, retail storefronts, online advertising or salespeople.

The strategy of a firm that uses more than one medium is said to be “multi-channel” or “cross-channel”, while when the shopping experience is fully integrated among all the different channels, it is called “omnichannel” (fig1.10).

Figure 1.10 Multichannel customer experience


Customer(s)
Customer Experience
Retailer Capability
Single Channel
Single type of touch point
Separate channel operations
Multiple Channels
Multiple independent touch-points
Channel centric view & operations
Cross Channel
Multiple touch-points of same brand
Customer centric, but operates in silos
Omni-Channel
Simultaneous channel interaction
Seamless operations across all channels

A firm is not necessarily required to be multi-channel or omnichannel, but for sure it enhances the interactions with the customers and it likely increases its user base, number of purchases and loyalty of buyers; at the same time this approach brings complexity in understanding and managing customers’ dynamics, inviting marketers in deeper researches about human purchases behaviors.

A multichannel strategy is not efficient if it is not based on the integration of the different lines, in order to avoid incoherent behaviors and not to disperse value, delivering coordinated contents and a unique and consistent value proposition and so enhancing trust in the buyer.

When dealing with this strategy, the CRM enters in the field of Multichannel Customer Management (MCM), in which is not only important direct efforts in the interactions with customers, but also to differentiate them among the different offered channels, so that they can feel free to move and choose and opt for their preferred experience, creating their own journey.

As technology rapidly evolves, companies are moving toward omnichannel strategies, building databases of integrated and ever more reliable information, this does not exclude risks and challenges: different channels require different strategies and the deployment of different technologies and at the same time require coherence and coordination, leading to the necessity of heavy investments, often resulting in low Return on Investment; different technologies also mean different ways to gather data and the consequent difficulty to find a standardized method of collection or analysis. [16][17][18]

1.1.3. Touchpoints

Customer experience, CRM, multi-channel strategy and many concepts presented in the previous paragraphs, can be understood in a clearer way with the introduction of the definition of “touchpoints”.

The term, in marketing, identifies anything that creates a point of contact, a bridge through which the consumer and the firm get in touch, the means of the meeting.

Touchpoints, among different channels, are what creates the real experience, they are the expression of the firm strategy, where theory becomes practice, the ultimate test if marketing strategy actually works.

The strategic power of them should not be underestimated: this represent a powerful instrument to gain competitive advantage: thanks to its touchpoints a firm is able to transmit to the customers its core values, to demonstrate its coherence and create engagement and finally it gives the possibility of comparison with competitors’ products.

The coinage of the term “touchpoints” in marketing and CRM is not univocal: what one can find in literature is that the term appears in management reviews and articles only in the 90s, and the main business magazines such McKinsey Quarterly and Harvard Business Review adopted it only in the first years of this century.

It is easy to imagine that the field is not entirely well defined yet, edges are blurred and researches about it are not always reliable.

Boundaries and applicability of the definition are not set, actually the term can be applied in all stages of the customer experience and it holds for every distribution channel.

Drawing from literature, some grouping methods have been developed in recent years, and they will be described soon.

Another aspect that is important to stress, in the fact that touchpoints are something subjective to the consumer, this means that when formulating a marketing strategy, *cognitive consumer behavior* studies come in place and a qualitative analysis on the influence of touch points on the consumers’ choices is needed (Stein 2006 uses a sequential incident technique to identify touch points, categorize and define them), so that the firm can orchestrate and give its consumer the experience they wished.

When dealing with touchpoints, we are referring to “brand touch points”, in the sense that the consumer get in touch with the company through the experience with everything concerning the brand and what the brand tells about the company.

And in few words, it can be said that touchpoints are what defines the brand identity in the customers minds.

Therefore, we can say that to build an effective marketing strategy means to understand how the consumer perceives the firm through the points of contacts with it and to design and integrate them in a way that the firm is able to conceive the potential customer its core values, and ensure him the best experience/journey.

After a review of the main classification and representation methods, a series of example will lead to the definition of visibility materials and the identification of them as fundamental touchpoints.

Representation models

Among the most diffused representation, the most basic one is the "brand touchpoint wheel framework" (fig 1.12 and 1.13), it considers touchpoints together with the evolving customer decision-making process: pre-purchase, purchase, post-purchase.

This representation method is effective because identifies the moment in which the contact customer-company happens.

Figure 1.12 Brand touchpoints and customer decision making process

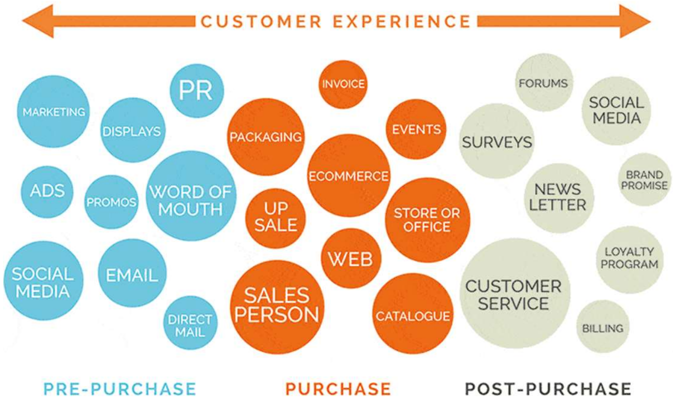
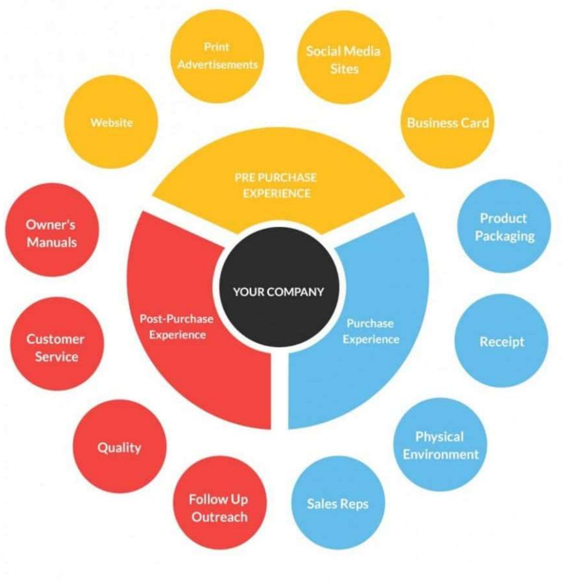

CUSTOMER EXPERIENCE
MARKETING
PR
DISPLAYS
ADS
PROMOS
WORD OF MOUTH
SOCIAL MEDIA
EMAIL
DIRECT MAIL
PACKAGING
INVOICE
EVENTS
ECOMMERCE
UP SALE
STORE OR OFFICE
WEB
SALES PERSON
CATALOGUE
FORUMS
SOCIAL MEDIA
SURVEYS
BRAND PROMISE
NEWS LETTER
LOYALTY PROGRAM
CUSTOMER SERVICE
BILLING
PRE-PURCHASE
PURCHASE
POST-PURCHASE

Figure 1.11 Brand touchpoints: wheel framework


Print Advertisements
Social Media Sites
Website
Business Card
PRE PURCHASE EXPERIENCE
Owner's Manuals
Product Packaging
YOUR COMPANY
Post-Purchase Experience
Purchase Experience
Customer Service
Receipt
Quality
Physical Environment
Follow Up Outreach
Sales Reps

This method, however, does not consider a fundamental variable: time.

As already stressed, touchpoints act at cognitive level, building in the consumer his own idea of the brand, and they do so from the first time the customer gets in touch with the brand (awareness), through the perceptual space and the decision of purchasing the first time and finally touchpoints are needed to build the loyalty of the customers.

This means that they can be represented along an ideal customer engagement line (fig 1.14 and 1.15), in which they can be divided by which require a digital approach and which are physical points of touch.[19][20][21]

Figure 1.15 Brand touchpoints with timeline

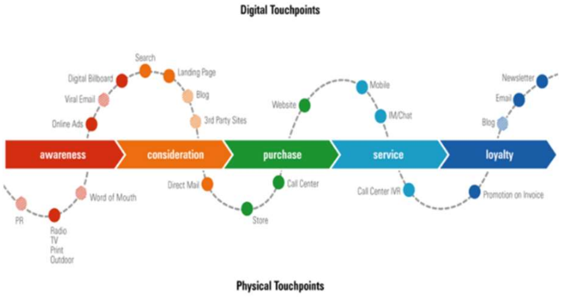
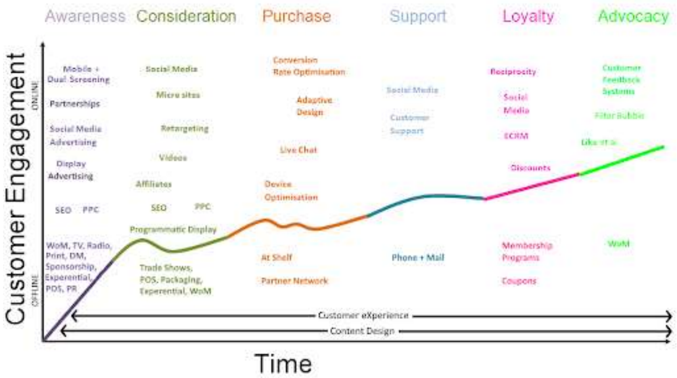
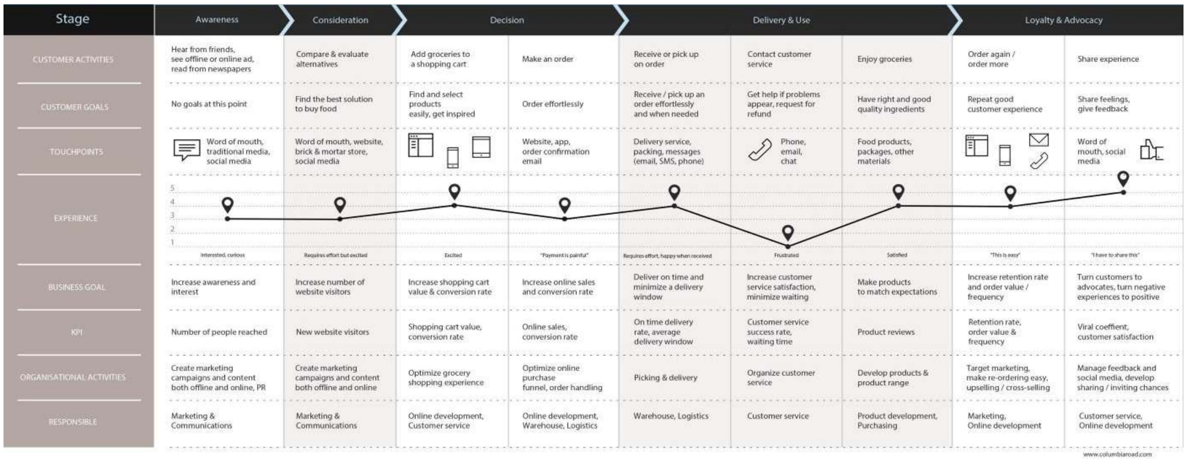


Figure 1.14 Brand touchpoints with timeline



In the end, the most complete and coherent way to look at touchpoints is to see them in the entire marketing strategy, studying how the whole customer experience should evolve, it can be done by introducing brand touchpoints in the customer journey map (fig1.15).

Figure 1.13 Customer journey map



Stage	Awareness	Consideration	Decision		Delivery & Use			Loyalty & Advocacy	
CUSTOMER ACTIVITIES	Hear from friends, see offline or online ad, read from newspapers	Compare & evaluate alternatives	Add groceries to a shopping cart	Make an order	Receive or pick up on order	Contact customer service	Enjoy groceries	Order again / order more	Share experience
CUSTOMER GOALS	No goals at this point	Find the best solution to buy food	Find and select products easily, get inspired	Order effortlessly	Receive / pick up an order effortlessly and when needed	Get help if problems appear, request for refund	Have right and good quality ingredients	Repeat good customer experience	Share feelings, give feedback
TOUCHPOINTS	Word of mouth, traditional media, social media	Word of mouth, website, brick & mortar store, social media		Website, app, order confirmation email	Delivery service, packing, messages (email, SMS, phone)	Phone, email, chat	Food products, packages, other materials		Word of mouth, social media
EXPERIENCE	Interested, curious	Requires effort but excited	Excited	"Payment is painful"	Requires effort, happy when received	Frustrated	Satisfied	"This is easy"	"I have to share this"
BUSINESS GOAL	Increase awareness and interest	Increase number of website visitors	Increase shopping cart value & conversion rate	Increase online sales and conversion rate	Deliver on time and minimize a delivery window	Increase customer service satisfaction, minimize waiting	Make products to match expectations	Increase retention rate and order value / frequency	Turn customers to advocates, turn negative experiences to positive
KPI	Number of people reached	New website visitors	Shopping cart value, conversion rate	Online sales, conversion rate	On time delivery rate, average delivery window	Customer service success rate, waiting time	Product reviews	Retention rate, order value & frequency	Viral coeffient, customer satisfaction
ORGANISATIONAL ACTIVITIES	Create marketing campaigns and content both offline and online, PR	Create marketing campaigns and content both offline and online	Optimize grocery shopping experience	Optimize online purchase funnel, order handling	Picking & delivery	Organize customer service	Develop products & product range	Target marketing, make re-ordering easy, upselling / cross-selling	Manage feedback and social media, develop sharing / inviting chances
RESPONSIBLE	Marketing & Communications	Marketing & Communications	Online development, Customer service	Online development, Warehouse, Logistics	Warehouse, Logistics	Customer service	Product development, Purchasing	Marketing, Online development	Customer service, Online development

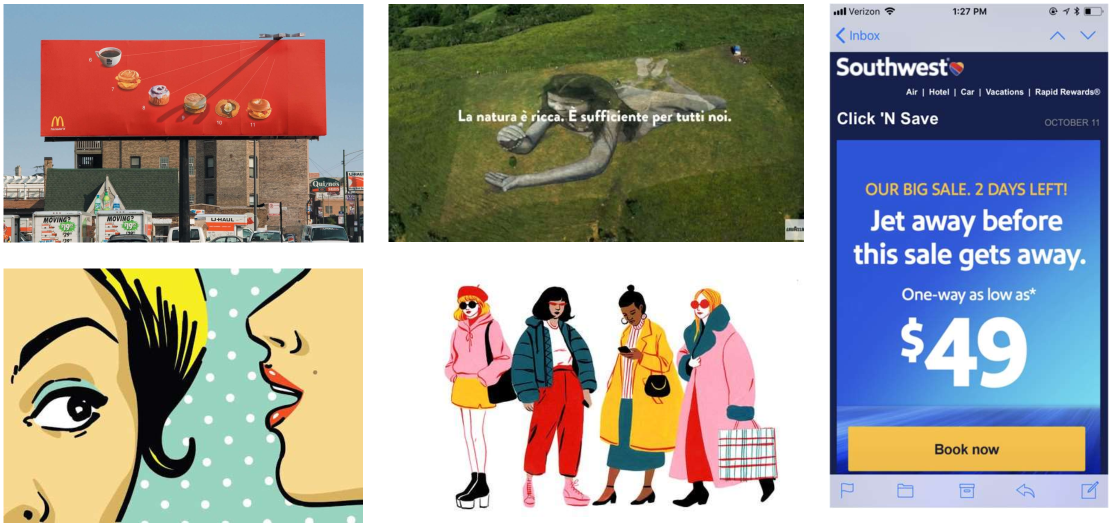
www.columbiaroad.com

Since it is a hot topic in marketing studies, schemes and frameworks for the representation and classification of touch points are evolving and researches are looking for ever new significant variables, the brand touchpoints matrix -(2012-Jonas Persson of Hello Future) is an example of it: in the framework, touch points are distributed in a two-dimensional plan that considers not only the increasing level of engagement (from mass market to personal experience) but also the depth of the interaction (from quick to long-term).

1.1.3.1. Touchpoints met in the customer journey

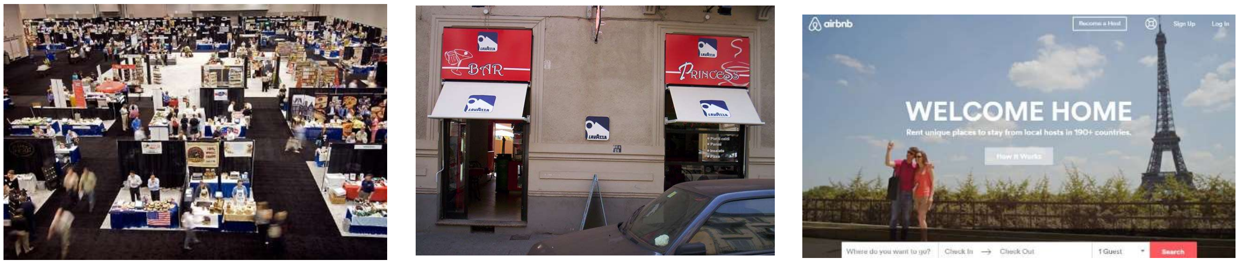
The need of classification comes from the fact that touchpoints are many: during his “journey”, the customer will have the first contact with the brand through public relation (PR) campaigns, advertising seen/heard on TV, on the radio, on flyers or online, digital billboard ads, *awareness* in the potential consumer is raised also through word-of-mouth, viral emails or by simple peer observation.(fig1.16)

Figure 1.16 Brand touchpoints: awareness


La natura è ricca. È sufficiente per tutti noi.
Verizon
1:27 PM
Inbox
Southwest
Air | Hotel | Car | Vacations | Rapid Rewards®
Click 'N Save
OCTOBER 11
OUR BIG SALE. 2 DAYS LEFT!
Jet away before this sale gets away.
One-way as low as*
$49
Book now

Once the consumer is aware of the brand, it comes in place the *consideration*, it means that the potential consumer in the decision-making process of buying a product, thinks of that brand as possible choice, touchpoints helping this fundamental step should be present in all the channels and they are for example the lending page, the blog or even trade shows and other events, exposure to the brand from sponsorships, packaging and POP materials and also exterior signages (fig1.17).

Figure 1.17Brand touchpoints: consideration


BAR
PRINCESS
airbnb
WELCOME HOME
Rent unique places to stay from local hosts in 190+ countries.
Search

The customer has now opted for *purchasing* and the points of touch with the company are the brick-and mortar shop, in which the elements of major importance are the physical environment, the internal facilities, the general atmosphere and the interaction with staff and sales person, other touch points aimed at the purchasing step are catalogues, point-of-sale material in retailers, the website with its proposals and the e-commerce site. (fig.1.18)

Figure 1.18 Brand touchpoints: purchasing

BLOGGAAJIEN HOT PICS!
79,-
59,-
79,-
29,-

The relationship customer-brand is strengthened in the post-purchase activities and, particularly trough product interaction and when dealing with *services and support*: phone calls and mails for feedbacks and customer support, and social media campaigns.

Lastly, touch points that can ensure *loyalty* to the brand, meaning the consumer, in the decision-making process of buying, will surely opt for the brand because he trusts it, in this step touch points are represented mainly by promotions, newsletters, blogs, surveys, loyalty programs, product quality, reviews and reputation system.

Eyesight is the first sense activated by the customer when approaching an unknown firm, is it either because potential customer stumbled upon an advertising that catch his attention, or because the logo transmitted a shared value or because the packaging or the design are appealing.

What the potential customer gets at first sight has a strong impact: brand awareness, as consideration phases and also purchasing choice are enhanced by visual communication of the brand, it is for this reason that it is at the base of every marketing strategy of success.

The strategy works if the firm is able to convey a message that is either coherent with its values and endorsed by the potential customers.

Those visual touchpoints that show the logo, enhancing its visibility, and enable to build the brand identity, are called visibility materials.

This definition is deliberately broad: the term can be used to describe an infinite variety of communication means: from external signage of the points of sale to the gadgets distributed at fair trades, accessories characterizing the environment and sponsored clothes of personnel.

However, the most effective visibility materials are those that are in some way complementary to the core product and functional to its consumption, because, in that way, logos, not only recall the brand in the mind of consumer, but also the product/service offered by the company.

To make this concept more clear, some examples that can be mentioned are: customized glasses for specific alcoholic drinks, branded hangers for clothes, cups and spoons in coffee industry, reusable shopping bags of stores.

An example of the use of strong visual communication to increase the probability of “gut” purchase, is the so called “POP” strategy, where pop stands for point-of-purchase, this marketing strategy consists in to conveniently locate visibility materials (such as displays or other articles) in the store. The objective is to enhance awareness of the brand and the visibility of the product itself, accompanying the consumer in an experience that will last also out of the shop.

1.2. Value delivery network

From the raw materials to the consumer, the product can go through a variety of steps, depending on how the supply chain is structured and on the complexity of the established relationships.

Products progressively get enriched with technological added value, generating profits for the entities involved at each level.

The first important thing to analyze is whether the business is targeted for private consumers (B2C) or for other commercial businesses (B2B), this does not exclude that complex firms could specialize in both branches.

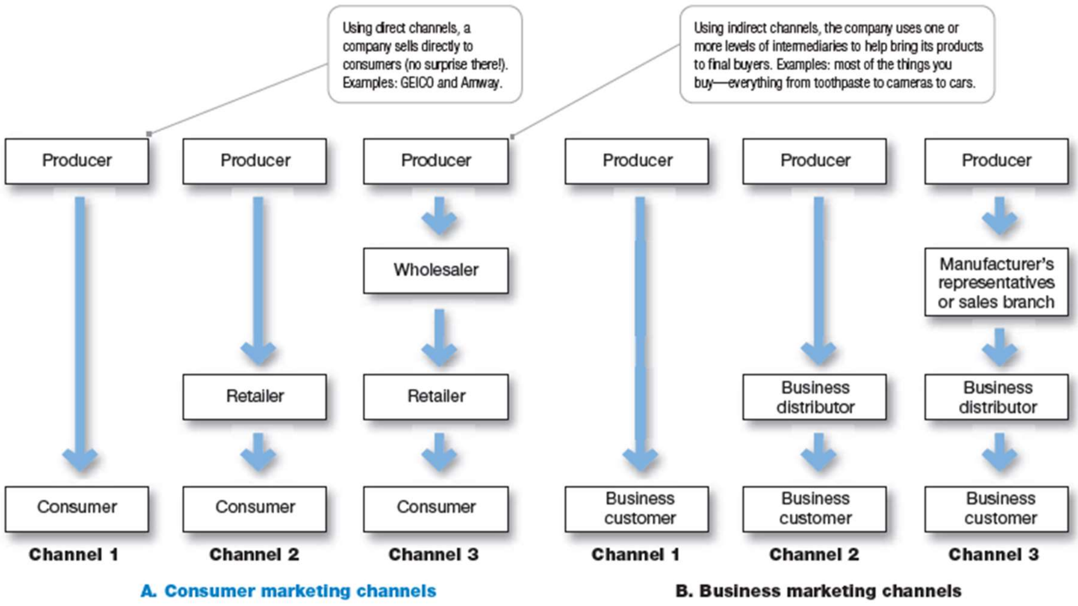
In both cases, there can be intermediaries between the producer and the buyer, that are respectively the point of sale for B2C (retailer) and distributors for b2b; marketing strategy when more intermediaries divide the producer from the final consumer is critical and the development of a strategic plan shared at all levels and the building of a strong brand identity within the organization is fundamental for success.

Fig.1.19 shows possible structures of a value chain both B2B and B2C.

The use of marketing for B2C is fundamentally based on visual communication and touchpoints, since final product/service goes directly in the hands of the consumer and the efforts of the firm are immediately observable in the consumer satisfaction or dissatisfaction.

In this case market researches can give inputs on how to act in the market and feedbacks on performances and it is for this reason this thesis will focus on this commercial sector.(leaving further deepening on B2B to the reader).

Figure 1.19 Consumer and business marketing channels



Using direct channels, a company sells directly to consumers (no surprise there!). Examples: GEICO and Amway.
Using indirect channels, the company uses one or more levels of intermediaries to help bring its products to final buyers. Examples: most of the things you buy—everything from toothpaste to cameras to cars.
Producer
Producer
Producer
Producer
Producer
Producer
Wholesaler
Manufacturer's representatives or sales branch
Retailer
Retailer
Business distributor
Business distributor
Consumer
Consumer
Consumer
Business customer
Business customer
Business customer
Channel 1
Channel 2
Channel 3
Channel 1
Channel 2
Channel 3
A. Consumer marketing channels
B. Business marketing channels

Firms working with Business-to-consumer commercial models are characterized by large number of customers downstream in the value chain and an elastic and fluctuant demand over time. Substitution effect can be an issue, since there is not an individual relationship with the single potential buyer when he's taking buying-decisions. This last point highlights again the importance of brand equity as strategy to avoid substitution effect, so that even if he buyer doesn't find the product he is looking for, he won't choose another equivalent item in the point of sales, but rather, he is willing to change POS or wait for the product he desires to be available.

These characteristics suggest that, to properly work, a B2C firm has to develop a detailed demand plan, that should take into account: strategies for creating loyal consumers, data exchange between the intermediaries along the entire supply chain and the application of demand forecast methods.[20][21].

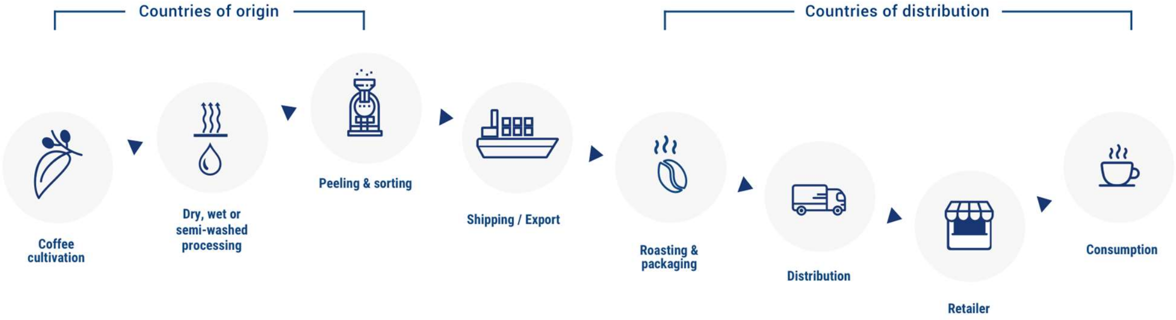
2. The coffee industry

2.1. Overview

Before proceeding any forward, it is important to clarify what is meant with the term "Coffee" as this may be misleading, since the vocabulary means both the plant from which are taken the beans and the brewed drink made from those beans.

Anyway, the coffee industry includes the entire coffee beans' journey from the plant cultivation up to the final user purchasing and consumption of the end product.(fig.2.1)

Figure 2.1 Coffee lifecycle


Countries of origin
Countries of distribution
Coffee cultivation
Dry, wet or semi-washed processing
Peeling & sorting
Shipping / Export
Roasting & packaging
Distribution
Retailer
Consumption

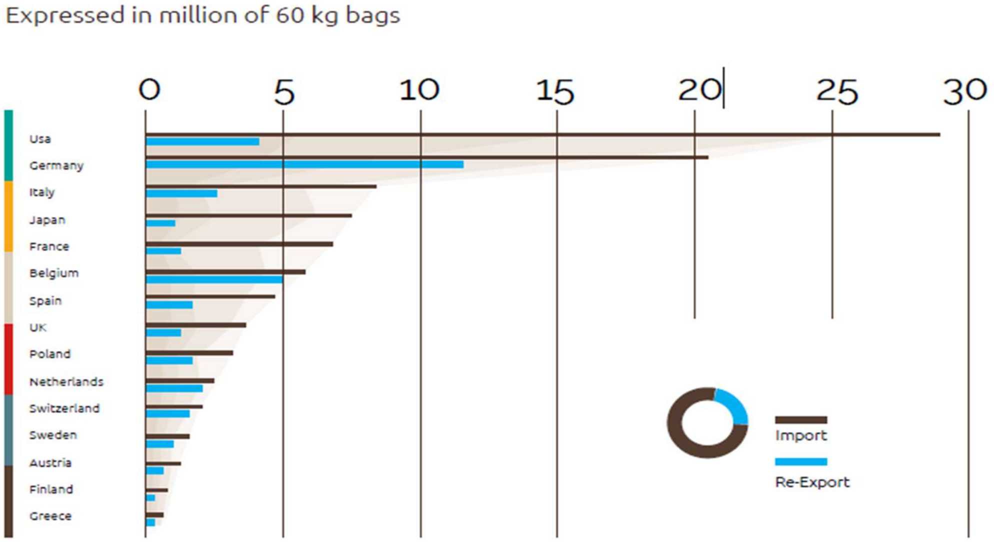
However, companies that will be treated in this thesis, are importer companies, which focus their business on the processes in the countries of distribution, managing many relationships with the countries of origin and creating a network of trusted suppliers, making it one of the most traded commodity in the world.

Fig.2.2 gives an idea about the coffee import volumes worldwide, the graph shows the ranking of countries for amount yearly imported; USA dominates the market, followed by Germany and Italy.

When referring to "coffee industry" from now on, it will be meant only this part of the whole supply chain.

Coffee is mainly sold as hot brewed beverage or as packages or capsules of powder, obtained from grinding roasted beans, according to the different channels of distribution.

Figure 2.2 Top coffee importer worldwide



Numbers regarding the consumption of coffee register that in the last year (May 2019- April 2020) world coffee consumption is estimated at 169.34 million bags (60kg), while in terms of cups over 2.25 billion cups of coffee are consumed in the world every day. [22]

For its consumption trends, coffee has to be considered in the sector of the fast moving consumer goods (FMCG), that are defined as products that sell quickly (high volumes and rapid consumption) at relatively low cost.[23]

Two main types of products are included when high turnover rate and short shelf life are considered: those that are perishable for nature and those with a very high demand. Are FMCG: food (processed, dry, frozen, baked, and prepared meals) and beverages, but also non-durable goods such as medicines, some household products, cosmetics, toiletries and stationery goods.

For its characteristics, the market for FMCG is highly competitive, resulting in low prices for buyers and low margins for producers and making the role of marketing fundamental for the purchasing choices of consumers. Not surprisingly, this sector is also known as *consumer packaged goods*.

Piecing together the history of coffee, as for the majority of receipts, is far from easy; researchers trace back the cultivation of the plant and the use of the bean in Ethiopia, precisely in the province of Keffa, from there the diffusion in XIII and XIV centuries in Yemen and along the east coasts until it reached Makkah and Medina.

The spreading of the beverage has been reconnected to the propagation of the islamic religion, which does not allow the consumption of alcohol, so that wine was substituted with the energizing drink obtained by coffee.

At that time Italian commercial trading with Ottoman empire was flourishing and soon the beans were sold as medicines and spices and the beverage was very successful.

In Europe from XVII century on, Coffee-shops started to spread and become a trend, and a meeting place for intellectuals.

Nowadays coffee is spread all over the world and each culture has developed its own rituals around the drink, from the preparation to the consumption, Italy is famous all over the world for its *espresso* and for *cappuccino* preparation methods. [24]

Italian context

In the ranking of worldwide coffee consumers, italians are in the 13th position, with an average coffee consumption of 5,9 kg per person per year, with an overall yearly consumption of 37 billion cups.

From a study conducted by Coffee Monitor Norisma in 2018, it has emerged that 95% of respondents drink coffee regularly, among them the 58% drink 1 or 2 cups a day, 37% of them 3 or 4 cups a day and remaining 5% more than 5 cups a day.

The industry of coffee in Italy has grown around the small shops and drugstores, perfectioning the art of roasting, grinding and packaging up to nowadays, when the Country counts more than 1000 enterprises in the industry of coffee.

What characterizes the coffee market is that more than half market is covered by the first (in terms of value produced) few groups: Luigi Lavazza, Nestlé Italy (Nescafé + Nespresso), Massimo Zanetti Segafredo, Illycaffè, Kimbo Caffè and JD Edwards.

Another principal feature of this market is that companies operate on different distribution channels (i.e. retail, HoReCa, OCS&VENDING, E-commerce), with a wide range of products and in multiple geographies, resulting in a very fragmented market in which comparisons analyses are complex and results often not reliable.[25][26][27][28][29][30]

2.2. Marketing strategy

Given the dimensions of this industry and the different distribution means that can be deployed, it can not be defined a unique and generic marketing strategy. It is, rather, reasonable to analyze this world by splitting in into its main channels.

2.2.1. Channels

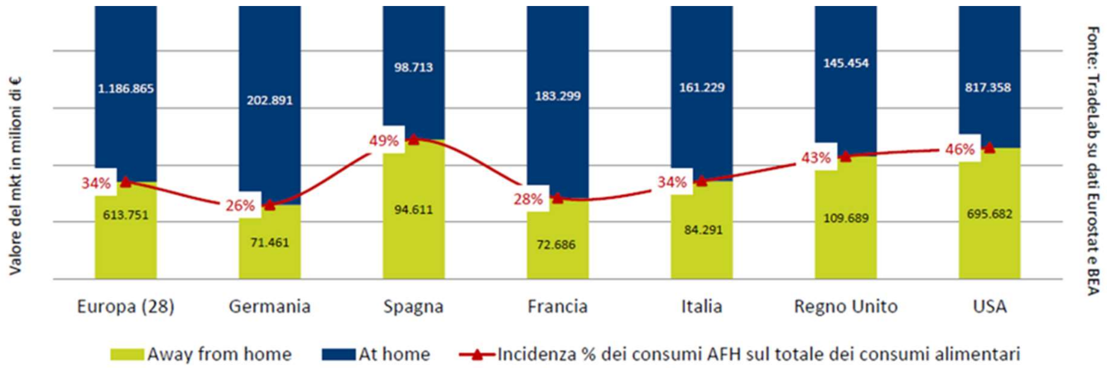
The world of coffee (and its accessories) distribution and consumption is wide and varied: a first big classification should be done among the consumption of coffee at *home* and the consumption defined *away from home* (AFH).

To give an idea of how the two markets are splitted internationally, fig. 2.3 represents data analysis on the market shares division between home and AFH markets in the in 2018, conducted by TradeLAB on data of market values (M€) of the whole food and beverage consumption sector.

What emerges is that, in general, home consumption prevails over away from home in all the countries considered.

The european consumption (based on analysis of 28 countries, pre-Brexit) is on average splitted 34% AFH and 56% home, perfectly mirrored by the italian results and among the european countries, Spain is the one with a balanced split, that is closer to result from USA.[31]

Figure 2.3 Incidence of AFH consumption over total consumption in food&beverage sector



Fonte: TradeLab su dati Eurostat e BEA

The two main markets described above can be defined through their distribution channels.

All those activities, services, and business functions involved in preparing and serving food or beverage to people, typical of the away from home sector, are classified as *food service* (FS). In coffee industries, FS is splitted into three kinds of points of sales (POS): hotels, restaurants and cafés, together defining the so-called HoReCa channel.

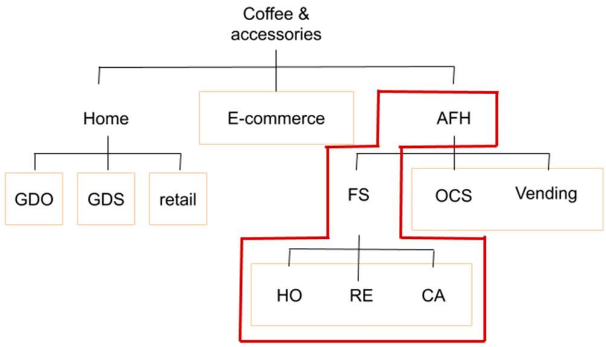
Furthermore, away from home solutions can be for offices and large spaces (OCS) and for the vending machines (Vending), usually considered together in OCS&VENDING channel.

People who want consume the product at home would buy coffee in shops of the GDO (large scale retailers), GDS (specialized retailers) or even smaller *retail* shops; an alternative channel, growing in importance, is the *E-commerce*.

Going in depth for what concern Italy, data gathered in 2018 showed that the coffee consumption among channels is divided in this way: 60% comes from retail, 19% from FS, 13% from OCS&VENDING and the remaining 8% from other sources, among which e-commerce.[32]

In this thesis, the analysis will be focused on the Italian market, limited to the HoReCa sector, in which visibility materials have a leading role for the success of the marketing strategy.(fig. 2.4)

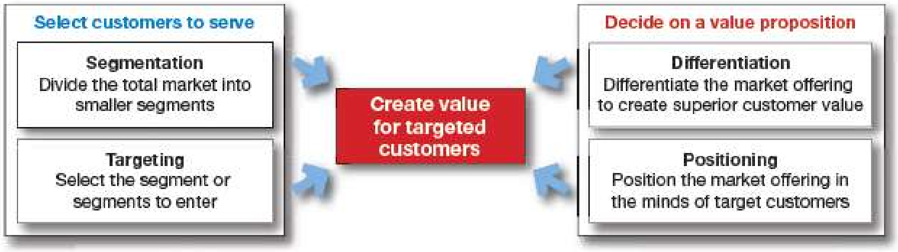
Figure 2.4 Coffee industry channels, boundaries of the thesis


Coffee & accessories
Home
E-commerce
AFH
GDO
GDS
retail
FS
OCS
Vending
HO
RE
CA

Widely used, mainly in the food and beverage industry, Ho.Re.Ca is a syllabic abbreviation that stands for Hotel, Restaurant and Café/Catering.It has been coined in the food service sector for the frequent and common need to put together all those areas in a short way, indeed, it briefly comprises facilities where the consumer can have direct consumption of food and different related services outside home.

Many companies recognize the strategic utility of the classification of the consumers in the Horeca channel. For designing a customer value-driven marketing that build the right relationships with the right customers, it is of primary importance the identification and definition of different segments and to target consumers, and the application of strategy through the differentiation of offers and positioning choices (fig2.5).

Figure 2.5 Pillars of STPD marketing strategy


Select customers to serve
Segmentation
Divide the total market into smaller segments
Targeting
Select the segment or segments to enter
Create value for targeted customers
Decide on a value proposition
Differentiation
Differentiate the market offering to create superior customer value
Positioning
Position the market offering in the minds of target customers

Market segmentation consists in identifying and dividing potential consumers into different and distinct groups (called "segments"), characterized by unique needs, behaviors and that deserve a tailored marketing strategy.

The core business of the company drives the segmentation, that should take into account the most useful, meaningful and attractive customers' characteristics.

Those characteristics are represented by the variables of segmentation, they are selected in a way that customers within the same segment behave alike in term of usage pattern of the good, they have similar expectations and reservation price.

Literature offers a wide range of variables that can be taken into consideration, depending on the scope of the segmentation:

- Geographic segmentation (states, nations, regions. countries, cities, neighborhoods, population density, climate,…)
- Demographic segmentation (age, life-cycle stage, gender, income, occupation, education, religion, ethnicity, generation,…)
- Psychographic segmentation (lifestyle, personality,…)
- Behavioral segmentation (occasions, benefits, user status, usage rate, loyalty status,…)

Among the mentioned above methods, the most widely used is the demographic segmentation, this because its variables are the most easy to be quantified and they are also strictly connected to fundamental measures that describe consumption-related information of consumers.

Once market segments and potential consumers' profiles have been identified, to target means to choose one or more of those segments, that the firm will strive to enter in.

Decision should be based both on the potentiality of the segment (unserved, new needs emerging) and the coherence with internal capabilities to give the consumers what they need.

Targeting can be defined horizontally: to serve different segments with different products, responding tor completely different features needed, or vertically: the product offered within different segments served is the same in term of needs fulfilled, but characterized by different level of performances.

To opt for different segments require separate marketing strategies, which in turn means extra marketing research, forecasting, sales analysis, promotion planning, and channel management differentiated per segment. Only solid and mature companies are able to develop and sustain such a complex and costly strategy.

Choices of target are reflected in the value proposition, that consists in the choices of how to create differentiated value for targeted segments and which position they want the product will have in the mind of consumers, how they perceive the product with respect to competitors. [33]

2.2.2. The importance of the POS

Strategies of targeting, segmentation, differentiation and positioning in the HoReCa channel are applied 360 degrees in the point of sales, affecting a lot of elements. Usually, the driving variable is the blend that is offered, that is the core product of each coffee company.

Multiple blends mirror a multi-segments company, they respond to different consumers' tastes.

As already stressed, consumer's choice, is not only moved by the need of consumption but there is a psychological phenomenon of impulse purchasing, generated by many other factors.

From a Market research conducted from TradeLab in 2016 on coffee consumers, has emerged that 14,9% of respondents haven't planned the consumption before entering the POS, fig.XX show which have been the trigger of the final choice: results in table 2.1.

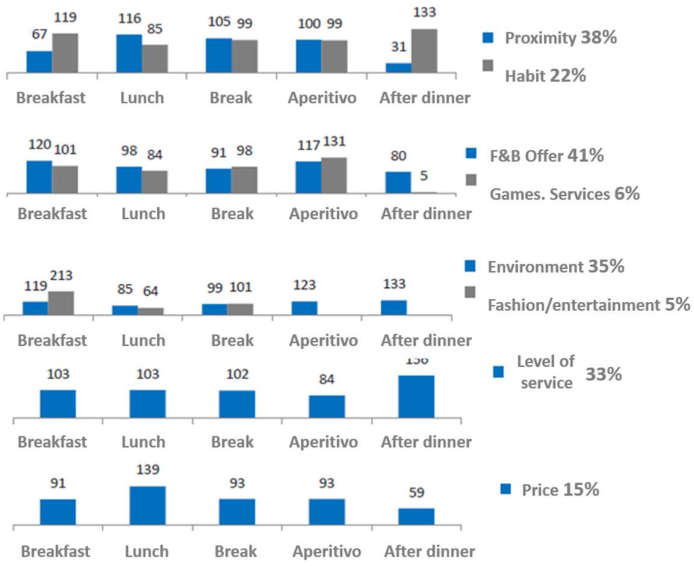
Table 2.1 Trigger of choice of POS

Trigger for choice	% of respondents
I have seen the product displayed	75,7%
The barman has suggested it to me	16,8%
I have chosen it from the menu	8,4%
I have seen advertisements	3,1%
Other (friend suggestion, it was the only available brand,...)	1,6%

One can conclude that the far most effective way to attract a potential consumer is to put in action a strong visual communication. A lower-level strategy, still viable, could be to train specifically the personnel for leading potential consumer towards the strategic objectives of the company.

The study further investigates the choice of the consumer about the chosen POS.
Results are shown in fig.2.6. Their outcomes shows that proximity, environment and level of service offered follow by only few percentage points the choice boosted by the product offered.

Figure 2.6 Reasons of choice of POS the day of the interview



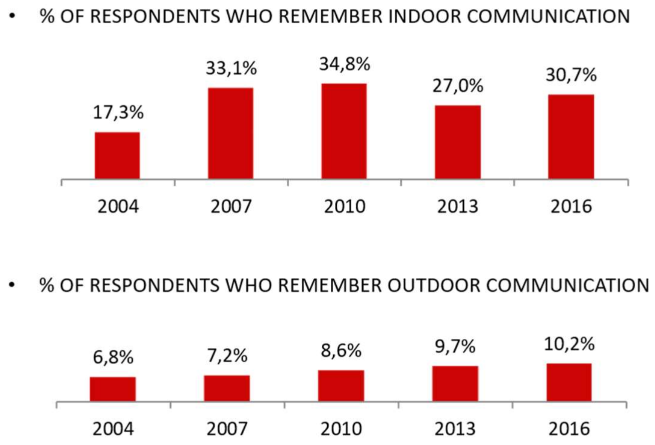
This means that, apart from fine-tuning its core products, the company should put its efforts in the geographical positioning choice, that must be coherent to the selected segment (e.g near schools for students, close to the industrial area for workers, close to city center sites for tourists,...) and in the creation of a pleasant environment, and make it consistent with the message that the company wants to convey.

The same study, put together data gathered over the previous years, starting from 2004, to determine the trend of the impact on consumers of the environment created and visibility strategy applied at the POS, asking to them if they remembered both the indoor and outdoor communication setups after the consumption (fig.2.7). Over the years, consumers seem to get more impressed by external communication, while the impact of indoor communication shows a floating trend around 30%; it is interesting to observe from 2004 (17,3%) to 2007 (33,1%) the value nearly doubled; this big jump can be attributed to some contributing factors, in particular the increasing sensitivity of companies to marketing, that has become a more and more sophisticated subject, and generational lifestyle changes, boosted by the diffusion of social media, which triggered an intensification of phenomena of "experience sharing".

One example is the consumption of coffee, which has put the stress on the ritual aspects of coffee consumption making it an actual experience that goes beyond the mere consumption.

It is in this context that visibility materials play a central role.

Figure 2.7 Respondents who remember POS visual communication



34% of consumers remember at least one communication material either indoor or outdoor;

7% of consumers remember both of them

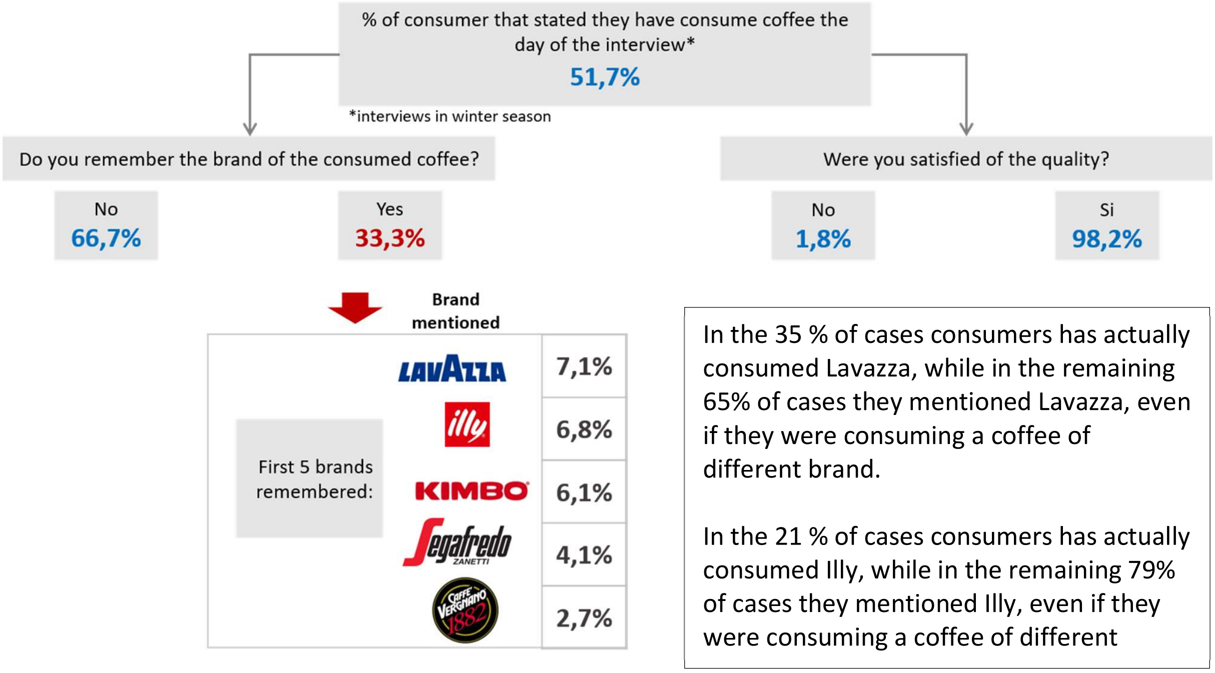
54% of those consumers who remember, mentions only one material34% of consumers remember at least one communication material either indoor or outdoor;

The last section of the research was focused on investigating brand awareness of consumer.

As stated in the introduction chapter of this thesis, to deduct the perception of consumer with respect to the brand and to represent it through measurable indexes is quite impossible.

However, some inferences can be made on the answers of the interviewed consumers, when asked if they remembered the brand of the consumed drink (fig.2.8)

Figure 2.8 Results of interview on brand awareness


% of consumer that stated they have consume coffee the day of the interview*
51,7%
*interviews in winter season
Do you remember the brand of the consumed coffee?
No
66,7%
Yes
33,3%
Were you satisfied of the quality?
No
1,8%
Si
98,2%
Brand mentioned
First 5 brands remembered:
LAVAZZA
7,1%
illy
6,8%
KIMBO
6,1%
Segafredo Zanetti
4,1%
Caffè Vergnano 1882
2,7%

In the 35 % of cases consumers has actually consumed Lavazza, while in the remaining 65% of cases they mentioned Lavazza, even if they were consuming a coffee of different brand.

In the 21 % of cases consumers has actually consumed Illy, while in the remaining 79% of cases they mentioned Illy, even if they were consuming a coffee of different

The brands most remembered are all italian companies and mainly those that cover the highest shares in the italian the coffee market. It is interesting to observe the power of brand awareness: when asked to say the brand of the consumed coffee, if remembered, a consumer most of the times would answer with the brand he recall the most, instead of the correct one.

All these considerations have been made to explain the importance for a company competing in this market to invest in POS differentiation, acting through the use of visibility materials and also to explain why the most diffused marketing strategy is to attached specific visibility materials to each offered blend, to stimulate the association product-brand.

In marketing jargon, a strategy that is customized for each segment, such the one used in coffee industry, is said *below the line*, in opposition to the more traditional *above the line* advertising, which in turns describes those actions directed to generic users, through the exploitation of traditional media, such as tv or radio commercials.

2.2.2.1. Visibility materials as investment

Given the intrinsic power of this instrument in generating demand for the core product, it is a common practice in the coffee industry to give such materials to the POS for free at each new activation and to regularly supply it for replacements or to support the launch of a new product or for promotional activities.

The first must pay suppliers for their production but there is not directly measurable counterpart in the revenues.

From a financial point of view, then, visibility materials are considered as investments.

To find a measure to compute the added value generated by this specific marketing strategy is the challenge faced by all FMCG companies.

3. Luigi Lavazza S.p.A.

3.1. Company overview

History of Lavazza is a path paved with quality, experience and italianness and rapid success of the company is attributable to the coherence preserved throughout the whole development by the family generations that came in succession.

The company was born as grocery shop in Turin, founded by Luigi Lavazza in 1895; among the products for sale, coffee beans were a particular subject of interest.

An entrepreneurial mind characterized the founder, who was continuously in search for innovations in the field. The experience gained, travels to the producing countries, together with a close attention to market needs, brought him to the invention of the concept of blends, that nowadays is still a distinctive characteristic of the company.

Lavazza, as enterprise, is founded in 1927, following a period of industrial boom in the city, but it is only in 1947 that the family decided to commit the whole business completely to coffee and started selling it in cans.

In 1955 for the first time the company slogan is spread both on journals and on the radio; two years later sales are not manageable anymore and the family decided to start producing on industrial scale, focusing research and development on maximization of production process.

Lavazza, in the following years, gained more and more success, also supported by huge advertising campaigns on tv, in which Nino Manfredi played the role of making the brand iconic.

In 1982 internationalization of the brand has started with the first subsidiary located in France; the product abroad was appreciated and communication stressed the connection of the brand with the italian ritual of espresso.

Nineties have been years of big changes, Lavazza use of advertising expanded, thanks to the collaboration with graphic design studio of Armando Testa, furthermore, the cup, designed by Claudio Caramel, assumes a new iconic shape.

In the same years collaborations with famous chefs and photographers have started.

The coffee is not a simple commodity anymore, the consumer is more and more aware and involved in a real broader experience.

In the 2000s, Lavazza starts putting in practice corporate social responsibility and sustainability activities, Informed consumers start paying attention to the social messages conveyed by the company.

Nowadays Lavazza gives continuity to the initial business keep believing in the original values of the great-grandfather, furthermore, regardless for its dimensions, it is still a family-owned company, whose priority is to continuously keep pace with innovation.

The common history that bounds Lavazza's relatives and that characterizes the company since the beginning, prevents them to list the company on stock exchange.

The Board of Director is made of six members of the family: Alberto, Giuseppe, Marco, Francesca, Antonella and Manuela Lavazza and five chosen directors, among which the CEO Antonio Baravalle.

This structure enables the family to actively participate to the choices of their company, supported by other management experts, which are a fundamental external point of view, not involved by family matters. [34][35]

Dimensioning

Lavazza has built a wide network and spreads its products all over the world, across different channels, reaching in 2019 a presence in more than 140 Countries, through subsidiaries and distributors and managing more than 4000 partners.

2019 has registered more than 4,4 million 60 kg bags of green coffee bought and has realized record revenues of 2,2 billion revenues, against 1,87 billion of the previous year.

Lavazza is leader in the italian retail market, while shares in the other channels are too fragmented to establish a reliable ranking.

Over the years Lavazza have acquired other companies, becoming the multi-brand reality under the name of "Lavazza Group": France's Carte Noire (2016) and ESP (2017), Denmark's Merrild (2015), North America's Kicking Horse Coffee (2017), Italy's Nims (2017), and the business of Australia's Blue Pod Coffee Co (2018) and the international Mars Drinks (2018), which have been renamed in Lavazza Professional.

Lavazza Business pillars

In a world of fast changes, for a company of such dimensions and so much variegated, it is difficult to maintain consistency throughout the whole offer and over time, unless it makes a list of necessary and imperative values that should guide whatever business choice.

Most of Lavazza's business pillars are already recognizable in the first years of existence of the drugstore and it is in this consistency that stays one of the major strengths of the company.[36]

- Authenticity: the presence of the family in the BoD is a strong signal of real passion for their business, and this passion should be shared along the entire value chain.
- Inventiveness: Lavazza has been many time the pioneer in employing or developing the most recent technology, always ready to explore new ideas. The history of Luigi Lavazza and his

fortune coming from the introduction of the revolutionary concept of blends is today a stimulus to always experiment.

- Italianness + global brand (Legacy on espresso and excellence in all kind of coffee preparation): the relationship Italy=Espresso=Lavazza, conceived in the 80's still accompanies the firm. This concept assumes a broader meaning in modern times, in which Lavazza has gained international success. Lavazza will always master the art of the espresso, and will always represent italian coffee ritual in the world, but with the slogan "more than italian" it is open to introduce other kinds of preparation technique, in order to respond to different needs all over the world. Two actual examples are Cold brew coffee and Iced Cappuccino. Cold brew coffee is a japanese originary receipt diffuses in USA , that requires specific preparation materials (mainly a glass container and a filter), it was introduced in 2017. Iced Cappuccino is a cold drink in can, developed by Lavazza and Pepsi, launched in England in 2019.
- Premium quality: the pursuit of excellence has always distinguished Lavazza; in recent years launches and campaigns have been focused on enhancing the premiumness of the company's offer.
- Responsibility: Lavazza interpret this pillar as the commitment in its business operations toward economic, ethic, environmental and cultural heritage. Over the years, this has translated into concrete activities in support of producers, their communities and world sustainability in general.

3.2. Lavazza marketing strategy

There is a slight difference between the strategic objectives of the company and the values it bears through its commercial activity, while the former are decided ex ante, consolidated by the board of directors and propagated in the company as specific departments' goals, the latter depends on the final consumers' perception.

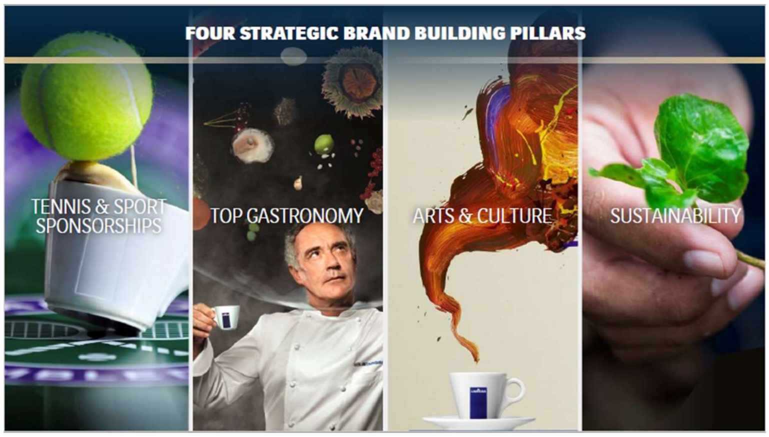
The consequence is that one of the most important task of marketing department is to reverse consumer cognitive process and to develop a strategy such that the values conveyed match with the vision of the company. Any bias created in this translation process risks to be detrimental for the success of the opted marketing strategy.

Marketing theory concepts of the introduction, has to be considered carefully when brought to real business cases.

Specifically, in Lavazza case, the company does not need to raise awareness on its brand in Italy: due to the fact that is among the top players in the market, it can be stated that 100% of population knows the brand. Therefore, the primary objective of marketing becomes to differentiate the offer to sustain competitive advantage among the different channel it operates in and to create a unique consumer consumption experience.

Lavazza has defined four strategic *brand building pillars*: Tennis & sport sponsorships, top gastronomy, arts & culture and sustainability (fig3.1). They represent the areas of maximum expression of company vision in the mind of consumer, or in other words, how the values of Lavazza are put in practice.[37]

Figure 3.1 Lavazza strategic building pillars


FOUR STRATEGIC BRAND BUILDING PILLARS
TENNIS & SPORT SPONSORSHIPS
TOP GASTRONOMY
ARTS & CULTURE
SUSTAINABILITY

Tennis & sport sponsorships

Sports in people are synonyms of shared experiences, dedication that brings to excellence, challenges, continuous innovation of techniques, expression of heritage and tradition and, finally, sports require a good balance of technique and creativity. All the previously mentioned values are shared by the company and makes the association sport-cafè reasonable. Furthermore Tennis is a sport internationally appreciated, as Lavazza products, which generate 70% of revenues from abroad.

Top gastronomy

This pillar mirrors the company continuous research for excellence, innovation and creativity. As coffee is an edible product, it can be used in different receipts, usually combining tradition with experimentation.

As for art and culture, also for gastronomy Lavazza strategically chooses partnerships with famous representatives of the field, such as world's best Michelin star chefs, such as Ferran Adriá, Carlo Cracco, Ernst Knam and Davide Oldani.

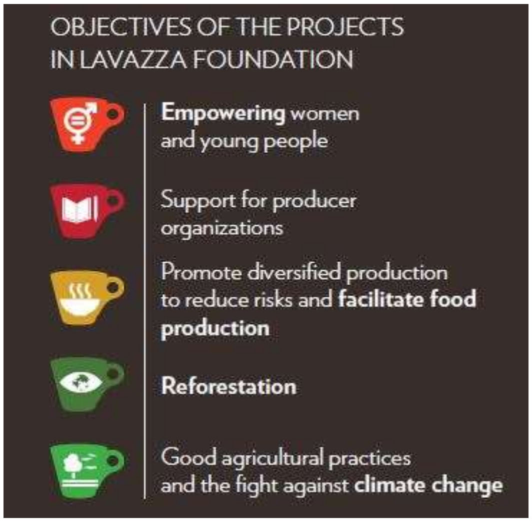
Arts & culture

Italy is famous for its painters and architects as it is famous for the espresso culture, italian quality is appreciated all over the world. Lavazza wants to associate italian creativity and pursuit of excellence to its coffee in order to represent italianness in the world.

For this reason, the company, over the years, has launched projects and campaign developed in collaboration with big professional names, which boosted advertising effectiveness: famous photographers such as Steve McCurry, David LaChapelle or Helmut Newton or renowned graphic design studios, first among all Armando Testa.

Lavazza also serves café in the Many internationally known museums: Guggenheim museum in New York (USA), Peggy Guggenheim Collection and Fondazione Musei Civici in Venice (Italy), Ermitage museum of San Petersburg (Russia) and it is very often official sponsor in cultural events.

Figure 3.2 Sustainability Development Goals in Lavazza


OBJECTIVES OF THE PROJECTS IN LAVAZZA FOUNDATION
Empowering women and young people
Support for producer organizations
Promote diversified production to reduce risks and facilitate food production
Reforestation
Good agricultural practices and the fight against climate change

Sustainability

Sustainability commitment of Lavazza is to be intended in a broad definition and scope, it includes: corporate social responsibility, social support to local communities in coffee production countries, environment sustainability and also attention to CSR performances of suppliers.

Lavazza, based on sustainability principles of The Sustainability Development Goals, set in 2015 by the United Nations General Assembly, has developed its own sustainability Manifesto, named “A goal in every cup” in which the company declares its actions and objectives with respect to the theme.

To give a valuable dimension to market activities, it can be said that Lavazza invests around 10% of its net revenues (2,2 billions in 2019) in advertisements and promotions.

Table 3.1 is an excerpt of past years financial statements and reports the costs, expressed in million euro, split into advertising, promotional and marketing. 2019 registers a substantial increase in advertising investment with respect to the two previous years, due to the boost given to digital advertising and partially related to the company branch “Lavazza Professionals”, that has been acquired at end 2018. [38]

Table 3.1 Advertising and promotional costs of Lavazza, 2017-2019

	Year 2017	Year 2018	Year 2019
Advertising costs	90,496	90,292	98,884
Promotional costs	52,260	57,406	57,116
Marketing costs	49,374	49,962	49,025
TOT	**192,130**	**197,660**	**205,025**

Awards

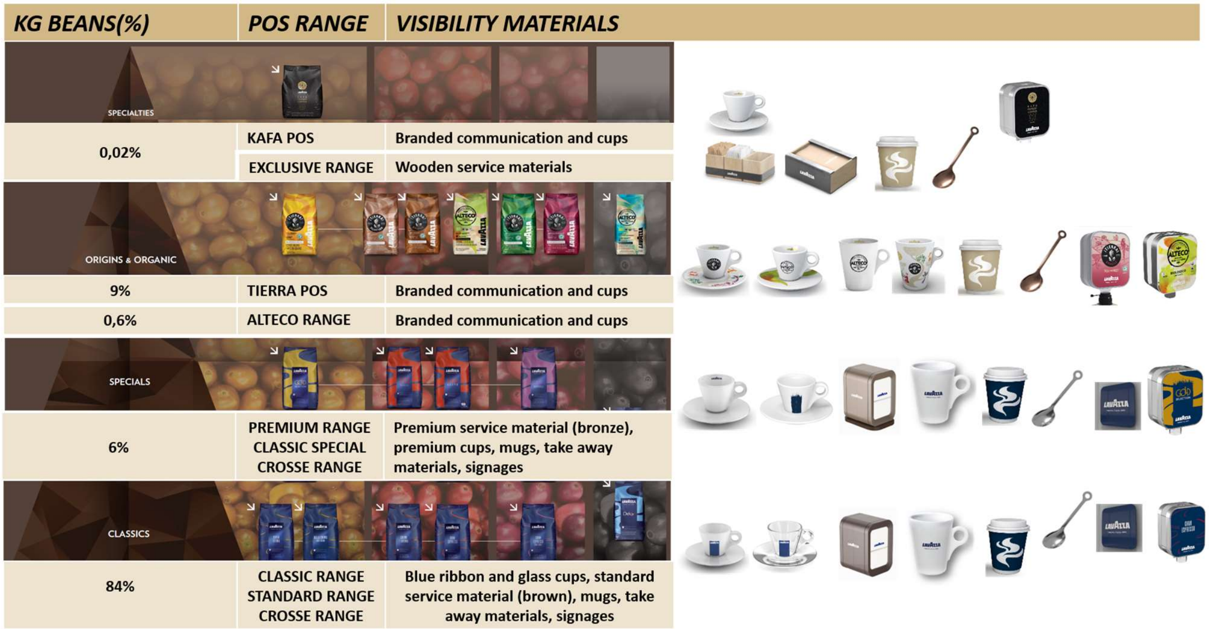
Commitment of Lavazza in brand building has been recognized and awarded, the most two recent recognitions are the victory at the *Superbrands Awards* in 2018, which celebrate brand excellence and the efforts made for supporting brand values, especially if they give priority to sustainability, and the prize “Best Holistic Company” at the *NC Awards* 2019, this competition judges the best italian advertising activities, the result of Lavazza is related to the high quality of integrated campaigns. Furthermore, according to the published by Brand Reputation Institute, Lavazza is the 8th most reputable company in Italy, 2nd after Ferrero, if considered food and beverage market. [39][40]

3.2.1. Targeting the POS

Summing up considerations made up to now, researches had shown that, in order to attract potential consumers, it is advisable for a coffee company to apply a strategy below-the-line, in which environment and services are highly customized per segment; this brought to the diffusion of the practice of matching visual communication of the POS with the offered blend, through the creation of a coordinate image. Lavazza represents a very clear example of coffee company putting in act this strategic binomial “blend-POS customization”.

Lavazza espresso blends are represented as building blocks of a pyramid, lower blocks contain the most diffused products, with higher volumes of corresponding coffee blend sold and at the same time generating lower margins than the blocks above, while on the top one can find top level quality coffee blends, chosen in niche locations; specifically, starting from the bottom and ascending, one can find “Classic”, “Classic special”, “Origins and organic” and on the top “Specialites” blends (fig3.3).

Figure 3.3 Lavazza Segmentation pyramid: association blend-POS-visibility materials



KG BEANS(%)	POS RANGE	VISIBILITY MATERIALS
SPECIALTIES		
0,02%	KAFA POS	Branded communication and cups
	EXCLUSIVE RANGE	Wooden service materials
ORIGINS & ORGANIC		
9%	TIERRA POS	Branded communication and cups
0,6%	ALTECO RANGE	Branded communication and cups
SPECIALS		
6%	PREMIUM RANGE CLASSIC SPECIAL CROSSE RANGE	Premium service material (bronze), premium cups, mugs, take away materials, signages
CLASSICS		
84%	CLASSIC RANGE STANDARD RANGE CROSSE RANGE	Blue ribbon and glass cups, standard service material (brown), mugs, take away materials, signages

Blends are differentiated one from the other thanks to different flavor structure, but each of them intrinsically embodies also a strategy direction of the company and those values that consumer of the segment looks for:

- Classic: company commitment toward italianness.

"The new Classic Collection encloses our interpretation of the Traditional Italian espresso. The collection aim is to build a perfectly harmonious blend thanks to heritage, craftsmanship and pleasure."(Lavazza Tradeworld)

- Specials: company commitment toward italianness and higher quality product.

"*Superior iconic blends composed of a selection of top origins (washed arabica and robusta) with a unique taste, balanced body, and fine acidity and sweetness."*(Lavazza Tradeworld)

- Origins: company commitment toward social responsibility and product excellence.

"Lavazza ¡TIERRA! The collection of blends offers you the unique taste experience of a coffee producing land."(Lavazza Tradeworld)

- Organic: company commitment toward sustainability.

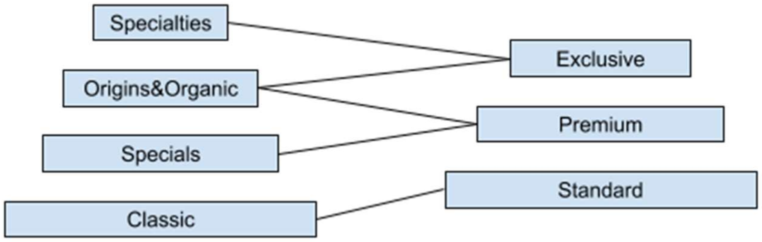
"An Organic and UTZ certified blend of top mountain arabica coffee and selected robusta varieties grown in uncontaminated areas. A sweet and elegant espresso, a velvety cream and persistent aromas with notes of honey and nuts."(Lavazza Tradeworld)

- Specialties: company commitment toward product excellence and premiumness.

“Lavazza presents the origin of coffee, authenticity in its pure state, the essence of substance. Kafa, one of the most valuable coffees in the world. More than a coffee, the first coffee on earth.” (Lavazza Tradeworld) [41]

Fig.3.3 also shows that different visibility materials correspond to each block, those elements are studied from a manufacturing and aesthetic point of view in order to guarantee coherence with the corresponding blends and to ensure consumers a 360 degrees experience.
The four-level differentiation of blends is matched with a three-level targeting of the POS, which can be Standard, premium or exclusive; this means that the relationship blend-range of materials in not a 1:1 association, but some freedom is left to the point of sales for the customization (fig.3.4).

Figure 3.4 Lavazza association blend-POS targeting



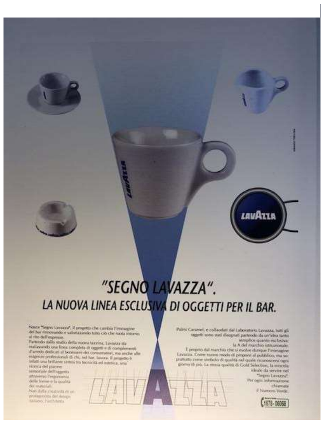
4. Lavazza Visibility materials

> *"The experience of drinking coffee starts with the espresso cup and reaches its pinnacle on the palate, yet it extends to the whole environment that surrounds the client. The attention to quality and design characteristic of Lavazza is available to all types of businesses for the best enhancement of their activity and service.*
>
> *Furnishing accessories, professional clothing, accessories. Unique collections that lend distinctive charm to their surroundings, creating a refined atmosphere of quality."*
>
> *(Luigi Lavazza S.p.A about visibility materials)*

Even if researches and literature has grown only quite recently, Lavazza had already understood the importance of marketing strategy in food service channel many years ago.
Looking at its most successful cases, it can be seen that Lavazza realized that functionality for the barman and aesthetic for the consumer could coexist, and that the development of iconic products strongly stimulates brand identity and, as a consequence, boosts consumption.

The first trace of Lavazza's action in the food service channel came with the Paulista coffee service, designed by Armando Testa in 1960. In that occasion, espresso cups, trays, café tables and umbrellas were branded ad hoc, giving personality to both outdoor and indoor areas.
The second memorable trace dates back to 1997, when the studio led by Claudio Caramel came up with a total renewal of the corporate image with the "Segno" Collection, starting from the central "A" of the logo they have designed the new iconic cup by flipping it upside down (fig.4.1), that has been patented and it is still used today. The success has to be linked to the involvement of famous design studios, to the right balance found between marketing demand and functionality and also to the recognizable and iconic shape, that enhances the brand awareness of consumers.[42]

Figure 4.1The iconic design of the cup by C.Caramel



4.1. Lavazza POS and relative visibility materials

Lavazza's POS are characterized by a huge variety of elements, that are required to be coordinated and coherent with the choice of offered blend and the defined target of the POS.
Each material is associated to a unique code, that helps the univocal identification and support its tracking, that in jargon is called sku (stock keeping unit). The term "sku" is internally used as synonym of "item".

Spaces of the HoReCa locations taken into consideration in the marketing strategy of the visibility materials are both the outdoor and th indoor environments.

Outdoor visibility materials include two-sided (which constitute the 34% of outdoor visibility skus) and single-sided (2%) signages, plates (40%), window stickers (17%), and special communication elements (8%).

Indoor visibility materials, represented in fig.4.2, include tasting materials (which constitute the 39% of indoor visibility skus), among which porcelain and glass cups and saucers, mugs, spoons, stirrers, take away materials, service materials (37%), among which: sugar holder, napkins holder, menu holder, tray, coin tray, table organizer and preparation area outfitting (24%), among which: clothes, aprons, graphic coffee containers, counter table accessories.

Figure 4.2 Indoor visibility materials

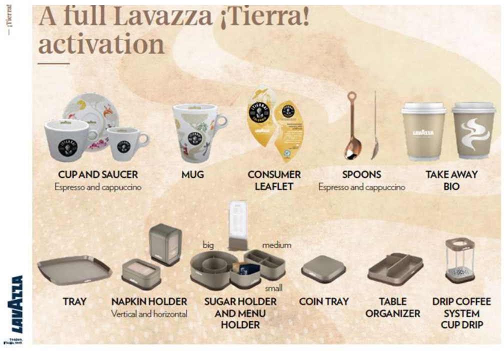
SERVICE MATERIALS
TASTING MATERIALS
PREPARATION AREA

Visibility materials are vertically differentiated on the three ranges: standard, premium and exclusive; in order to embody the characterization of each segment, items are made of different materials and their production follows different processes, reaching the partial handcrafting at the top level.

Often, high level products are co-developed with famous design studios, which elaborate branded premium collections.

Nevertheless, what they have all in common, is a particular attention paid to the high quality of raw materials and to the reliability of suppliers.

Figure 4.3 Visibility materials for the activation of a Tierra POS


A full Lavazza ¡Tierra! activation
CUP AND SAUCER
Espresso and cappuccino
MUG
CONSUMER LEAFLET
SPOONS
Espresso and cappuccino
TAKE AWAY BIO
big
medium
small
TRAY
NAPKIN HOLDER
Vertical and horizontal
SUGAR HOLDER AND MENU HOLDER
COIN TRAY
TABLE ORGANIZER
DRIP COFFEE SYSTEM CUP DRIP

- Example of activations of POS: Lavazza ¡TIERRA!

The blend, developed in collaboration with the NGO Rainforest Alliance, it is inspired by a social responsibility project, launched in 2002, developed in coffee producing communities to improve their local social and environmental conditions and production techniques.

Coordinated image (fig.4.3) for the visual communication has been partially designed ad hoc (cup and saucer, leaflet, wall decorations), while the remaining materials, as Tierra belongs to "origins" blends, it requires exclusive or premium service materials.

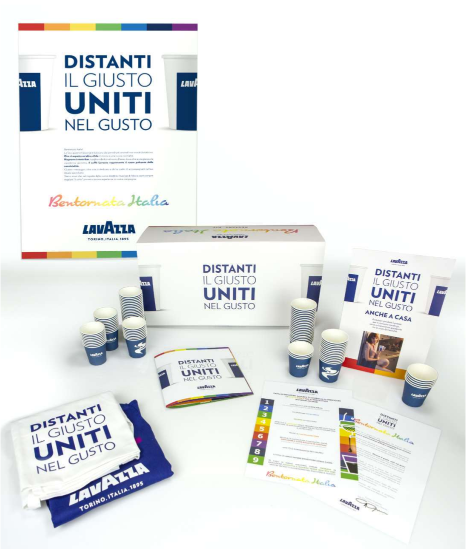
Relationship POS-consumer

Ultimate goal of marketing plan is the retention of the consumer, to do so the strength of relationship with the POS is fundamental.

In chap.2. it has been demonstrated that service level is one of the most impacting factor on consumption decision of consumer, this is translated in a series of activities of the company to stand out from competitors, such as to train barman or to organize specific activities in the venue.

Post Covid-19 reopening plans offer an actual example of this practice.

Figure 4.4 Lavazza post-Covid recovery kit



DISTANTI IL GIUSTO UNITI NEL GUSTO
Bentornata Italia
LAVAZZA TORINO, ITALIA, 1895
ANCHE A CASA

Food Service Italia the 12th of May 2020 launched the campaign “Distanti il giusto, uniti nel gusto” (literally “distant enough, brought together by taste”), it was provided for supporting 10.000 points of sales with a “recovery kit”(fig.4.4): a box containing service and communication materials such as customized aprons, communication plates, take away materials and also the creation of graphics to be employed on social media channels.

Attached to the box was a sort of handbook with suggestions for barmen on how to manage the situation in the best way possible: recommendations on hygiene and cleaning good practices, optimization of spaces to guarantee the correct social distance, it also contained suggestions on how to speed the service up and make it more efficient.

Advices were not just limited to the business sphere, but the barman could find also good practices on reopening communication strategies, on the importance of dialogue with consumer to narrow the gap created by physical distances and on how to convey positive vibes to consumers.

The project has been developed with the aim of making both the commercial activity and its consumer perceiving the bar reopening as a moment of rebirth and the closeness of Lavazza to their hard situation.

Feedback from consumers attest that the bar with such accessories gained attractiveness because of its sensitivity and interest in the theme of social distancing. [43]

For what concerns training activities for personnel, Lavazza Training Center offers training courses for baristas, catering staff, sales force teams, distributors, newly-hired staff, consumers, journalists and opinion leaders, in order to maximize the chance of ensure the best possible experience to the consumer.[44]

Lavazza has recently launched training activities also for consumers, offering guided tours to schools, universities and cultural associations, with the objective of raising awareness of the variegated world of coffee and its lifecycle and teaching them to recognize the high quality of Lavazza blends.

4.1.1. Distribution strategy of visibility materials

Lavazza, as the other coffee companies competing in the food service channel, gives visibility materials free of charge to the business customer.

In Lavazza, dimensioning of batches of those materials, for new activations, follows internal rules, shared only within commercial managers. However, once each manager is given a budget, the guiding rule is that the allocation is proportional to each customer's potentiality.

The definition and distribution of budgets is supported by sales network tools, which constantly monitor the POS.

Potentiality can be measured in terms of coffee volumes (Kg) sold, but another factor impacting on it is the range of targeting: even if visibility materials do not generate direct revenues, they are "attached" to a blend, which instead, generates margins, which are diversified according to the position on the pyramid. Margins are decided a priori in the company business plan, commercial managers have a limited freedom in this voice because the final financial statement must be in line with the budgeted one.

Dimensioning of the batches, then, should include the possible interval of consumption, at which corresponds an average attribution amount of materials, weighted with respect to the range of the pyramid they belong to.

An allocation that follows these two considerations is balanced both from a functional point of view (more coffee sold by customer, means more cups likely needed by him) and in the perspective of investment payback (revenues on coffee repay for committed costs in materials production).

The contract signed with customer will also include periodically refill of visibility materials, whose amount is based on internal replacement rates.

There are a few exceptions, for which these materials are paid by customer and, then, registered by Lavazza as revenues from good sold:

- -Some cased excluded by commercial strategy: an example that can be mentioned are store chains, for which margins are different, since they deal with a much higher scale of volumes,
- -When the consumer believes that the investment granted by Lavazza on his POS will not be enough.

A debated situation is what should the customer do with visibility materials when the commercial activity terminates.

At the point the contract is breached, and the POS will not contribute to Lavazza brand identity anymore, should the ex-customer give all the materials back? At the same time, those materials were given him for free and can be considered as a "present" form the point of the POS, leading to the refusal of the request of return.

There is no univocal management of such cases, they are managed time by time by commercial managers, possibly without involving attorneys.

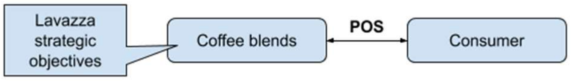
4.2. Choice of visibility materials: analysis of new activations trend

In this paragraph the duo POS (represented by its visibility materials)-blend is analyzed to understand the reasonings that the marketing department does when defining strategies for new activations.

The new activations are the POS that will open or restyle in the next future and that, therefore, will need a batch of new visibility materials to offer its services and to decorate the environment.

Summed up all the considerations made up to this point, POS with its catchy communication is the interface between the consumer and the product, and visibility materials in HoReCa channel are the most determinant touchpoints for the consumer choice. Fig. 4.5 is a visual representation of this concept.

Figure 4.5 Pos as interface between coffee and consumer



Company's strategic objectives are described as function of the sales of core product, usually consisting in defining percentage of expected growth in the different segments.

Given the mutual relationship POS-product in consumer segmentation strategies, goals set on blend consumption directly propagate on the corresponding communication means of the point of sales.

At the same time, results obtained in coffee consumption volumes, indirectly reflect the efficiency of the application of marketing strategies.

Up to now, this is the only doable way to measure the impact of the visibility materials in the food service channel.

In this thesis, this phenomenon is analyzed for the actions taken to sustain the growth of two of the company's strategic pillars: *premiumness* and *sustainability*.

The first step required by this analysis is to verify the actual commitment toward these values.

From the point of view of the blend, premiumness is mirrored by high-level quality of coffee, that in turns means specials, origins and organic blends; for what concerns sustainability, origins and organic blends has been developed for this purpose.

This means that the two pillars should be sustained by efforts of the company toward the top blocks of the previously described pyramid.

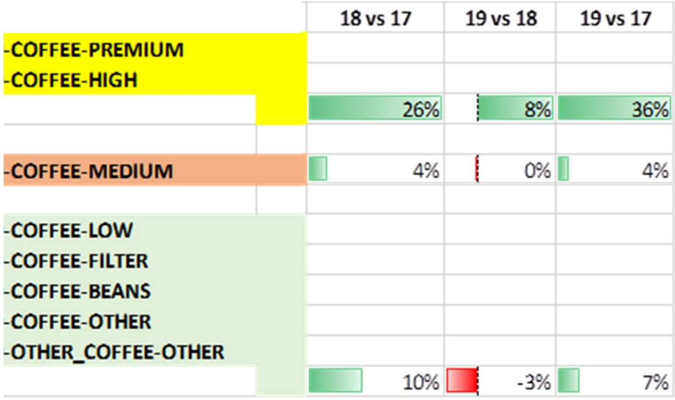
In the last years Lavazza registered important launches of new blends in these segments: Kafa (specialties) in 2014, Etigua (specialties) in 2015, Alteco (organic) in 2017, Tierra Bio Organic (organic), Tierra Brasile Cerrado (origins) and Tierra Perù Ande (origins) in 2018, demonstrating R&D efforts in that direction.

Furthermore, consolidated financial statement of 2019 in Food Service channel, registers an increase both in revenues and volumes in Italy. Explanation given in public papers relate this results to an increased customer base and to the efforts made on market premium segment, together with acquisition of relevant commercial customer in the AFH sector.

A first test can been conducted by comparing the volumes of coffee (kg of coffee beans) sold in Italy, respectively in 2017, 2018 and 2019, for each of the four segments categories of blends.

Table 4.1 shows the overall percentage changes over the years of targets considered. What clearly emerges is that the highest increases of sales, with a +36% in the last 2 years, are related to the top ranges blends, here named "premium" and "high".

Table 4.1 Percentage changes in volumes of coffee (kg of coffee beans) sold in Italy per range, 2017-2019



	18 vs 17	19 vs 18	19 vs 17
-COFFEE-PREMIUM			
-COFFEE-HIGH			
	26%	8%	36%
-COFFEE-MEDIUM	4%	0%	4%
-COFFEE-LOW			
-COFFEE-FILTER			
-COFFEE-BEANS			
-COFFEE-OTHER			
-OTHER_COFFEE-OTHER			
	10%	-3%	7%

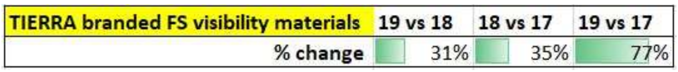
Significance of the result with respect to the underlying hypothesis, can be tested by verifying if there has been a simultaneous development of visibility materials in the corresponding range, that could explain the increased recent consumptions.

Due to the limited access to real data, this check has been conducted exclusively on Tierra visibility materials, covering the segment of origins blends.

The analysis had consisted in the comparison of the number of SKUs branded "Tierra" that were present in the portfolio of AFH visibility materials in 2017, 2018, 2019.

Results, shown in table 4.2, can be considered a proof of what hypothesized: visibility materials drive demand of coffee.

Table 4.2Percentage changes in number of sku of TIERRA visibility materials, 2017-2019



TIERRA branded FS visibility materials	19 vs 18	18 vs 17	19 vs 17
% change	31%	35%	77%

This explains the growing interest of Lavazza marketing department in the application of this instrument and in the development of products designed ad hoc for specific product launches, especially when dealing with exclusive and premium ranges, often involving international renowned studios.

Interest that is confirmed also by the evolution of the above the line advertising that involves always more frequently HoReCa settings.

Examples are the recent tv spot for Lavazza A Modo Mio (2019)(fig.4.6), advertised through the slogan “A casa come al bar” (at home like at the bar) and the spot “More than Italian” (2019) (fig.4.7) The former stresses pillars such the pursuit of excellence and the italianness: espresso both away from home and at home should be an inevitable moment of pleasure, and it is guaranteed by Lavazza’s quality, the latter stresses the pillar of global brand, able to comply with different international needs, giving the chance to live “the italian coffee experience in all its forms”.[45][46]

Figure 4.6 Screenshot from the spot "Lavazza a Modo Mio", 2019

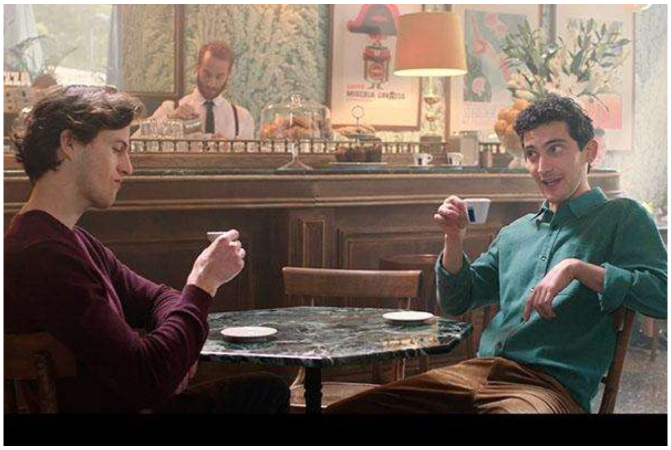


Figure 4.7 Screenshot from the spot "More than italian",2019

5. Demand Planning

This chapter has the aim of investigating the importance of a department that is strictly interconnected with many others in the firm, with the focus on the challenges daily faced when dealing with visibility materials and their sales forecast. The main tools used for the management of the department will be investigated.

5.1. The department and its tools

Every firm operating in supplying raw materials, producing components or distributing products or services is daily in the need of making forecasts of the entity of future commercial demand of the final users.

The *business demand plan* is expressed through the definition of the forecasted sales quantities of the products belonging to the mix, in future periods of the planning horizon; quantities that are also allocated on different commercial customers.

This demand plan is periodically formulated and represents the commercial commitment of the company concerning the volume of sales of the future, amount that the firm is required to sustain both to maximize the satisfaction of the customers' expectations through an appropriate service level and to gain adequate profit margins, hence increasing the company market share.

The term *Demand Planning* defines the set of business processes, management methods and quantitative techniques designed to support the definition of the commercial demand plan of industrial companies, integrated in complex multi-stage supply chains and managing multiple partners in the logistics and production chain.

Demand planning activities are developed through some main macro processes, among them it is worth mentioning:

-*Demand analytics and intelligence*: the analysis of the historical demand, of the products and customer characteristics, with insights on the evolution of the different channels

-*Sales forecasting*: the definition of sales forecast for each given segment, defined as product-consumer, over time {p,c,t}

-*Demand & Supply planning*: the definition of demand plan, sales budget and supply plans

The importance of sales forecasting

The business process of definition of a scheduled demand plan, relative to all products belonging to the company range, expressed for all the customers and for all the distribution channels, has a key role in supporting other business processes, such as resource utilization management or the in-time realization and the distribution of products in the commercial markets.

As previously said, Lavazza orders end products from suppliers, who organize the production and the shipping to the central warehouse in the quantities and time arranged.

Afterwards, it is up to Lavazza HQ to manage the relationships with who will need and receive products (subsidiaries and distributors), to set doable dates and quantities for responding their local needs (demand planning dep.) and to arrange deliveries in local warehouse (logistics dep.).

The requests from Lavazza to the suppliers in the purchasing order is then expressed in cumulative quantities, those that are needed in the same period (net of the quantities available in the warehouse). Period, that can be expressed in weeks or months, depending on the lead-time.

For each product p, needed at the time t, the quantity forecasted is $\sum_c d_{pct} - w_{pt}$

Purchasing department relies on the numbers forecasted.

From the moment of the order to the supplier up to the actual request, quantities in central warehouse are not “frozen” for a specific customer, but still considered in cumulative quantities.

Once one business customer makes his order, and it is in line with the corresponding forecast or with its (in time) communicated extra needs, it is processed by logistics and the correspondent products in the warehouse are not available anymore for others. There are exceptions, in which the process is not so straight and smooth: when an incongruence in the order is spotted (e.g. an excessive quantities not forecasted in the delivery note) or when requests don’t follow the proper iter (e.g. urgent requests communicated last minute via e-mail), in those cases, before being processed by logistics, the order is analyzed by the demand planning department; this analysis consists of understanding if and how much is critical to remove not forecasted quantities from warehouse, and how it would propagate on future production requests; at the same time the demand planning department might think of alternatives so that the request better balances the stock (e.g. suggest a similar product that has not been sold in past month/ suggest the same product but made of different material, that is easier and faster to be produced). The result of the analysis can have as result the approval of the request, a re-dimensioning of the request (partially approved), the approval with the new suggested modifications or the decline or the postponement of the request.

Management reasons for demand planning

Successful plans require the involvement of several business functions: Marketing and Sales (demand oriented), Production, Logistics and Purchasing (supply oriented), Finance and Human Resources (support oriented), who bring function-specific contributions to support the deployment of resources. Therefore, a firm needs a specific function or team dedicated to the definition, auditing and spreading of the demand and supply plans, that would include constraints and expectations of all the other business functions. [47]

Lavazza has developed a central demand planning department, that continuously relates with the other functions.

The role of the demand planner is then necessary to ensure an as accurate as possible forecast, that consequently lead to higher efficiency in different areas/parameters:

- Customer management (CRM): maximum customer service to ensure availability of product when it is required and in the desired quantities and quality.
- Supplier management: contractual relationship with suppliers and contractors, to negotiate prices, availability of raw material in time and the mode and timing of supply.
- Collaborative management: efficient planning with partners of the chain by sharing truthful and precise demand and supply plans.
- Operations management: plans of use of internal resources (production, storage, transportation) by choosing the best production and logistics alternatives.
- Inventory management: careful monitoring of stock at all levels manned in the supply chain network, aimed not to have excessive quantities of end products, that are unsold and expensive to keep extra in the warehouse.
- Resource management: efficient planning and temporal development of investments in product, process, warehousing and transportation technologies and in human resources.
- Finance management: efficient use over time of liquidity, planning of financial resources to be found and provided to projects for the development of physical and management activities of supply chain management

While the single forecast (given product, customer, time) is almost always close to the actual request, the deviation between the forecast and actual demand for cumulative quantities of a very large number of customers widens and results in a lower accuracy, leading to a less efficient management of resources, in particular, products risk to remain unexploited in the warehouse.

It is also easy to understand that the more complex the product, the more difficult is to foresee the need of it, and paradoxically, the more accurate the forecast (and the following production order) should be.

In this regard, demand planning department has formulated a measure for ranking products by complexity the *Complexity Index*, that will be discussed in more details .

The accuracy of the forecast (% closeness of the forecast with respect to the actual demand that has occurred) is far from easy, so much that a value over 70% is considered optimal.

The central demand planning department in Lavazza is managed by around 15 people, they carry out forecasts for all the products, excluded those that have no pattern, that are produced on demand.

This means that coffee in its different formats is forecasted, so as machines OCS and the visibility materials and also e-commerce products.

CDMI

The department relies on internally developed tools for the analyses required and for the insertion of the sales forecasts. The system used, called CDMI, that stands for Collaborative Demand Management and Intelligence, is an ad hoc connected and shared platform that elaborates data from the company's database, using mechanisms analogous to Excel pivot tables.

The tool appears as a collection of sheets, in which the most frequent queries are incorporated, and employees are required to select the most appropriate one and set the variables to obtain a customized extraction; data can be exploded in very minute details or aggregated as one desires.

For example, when dealing with visibility materials, data are commonly sorted: by geography, by SKU, by cluster, by complexity index (1-5), by target range (standard, premium, exclusive), by product family (glass, ceramics, signages, cups, …).

Some of the most used queries are explained by the type of information needed and the analysis developed and can be summarized in table 5.1.

Table 5.1 Assosiation activity of Demand Planning-analysis required

Activity of the department (step of the process)	**Type of analysis/ action**
Sales analysis and Sales force meeting	Graphical representation of the delta between the actual demand and the sales forecast of past months. Comparisons of actual sales month by month and with respect to the previous year/s.
Sales rolling forecast	Trend analysis. Data editing and insertion.
Production and distribution planning	Actual warehouse level, expected arrivals from supplier and expected exit to subsidiaries/distributors. Projections of future months movements. Product rotation (turnover) vs MOQ.
Final annual projection	End-year-estimation (eye): quantification of 1-year sales made up by actual demand for the gone months and forecast for the next months.

Often the more accurate forecasts derive from the conjunction of multiple reasonings, each time selecting the more appropriate variables and data.

Time series available, together with their graphical representations give the chance of comparison and interpretation of data, that are the basis for the demand planner activities.

The strength of this system lies in the fact that, even if the managed items are numerous and very different one from another, the tool is the same for every employee, that means to have a common terminology in the company, and a high customizability at the same time. This enables each employee to fine-tune his own preferred and appropriate way of visualizing data and to perform the corresponding analysis, to ensure accuracy in his field and then share results with colleagues.

5.2. Visibility materials and stock clusters

Going back to the focus of the thesis, some numbers can help understanding the width of the set of visibility materials in AFH channel: the skus that fall into the definition, subject to a monthly punctual sales forecast, are more than 170; number that assumes an interesting meaning when compared to the number of corresponding coffee blends matched, which is less than 20.

As previously described, this category is made by so many different products, that is difficult to find something in common to group them in a useful way and so assist their management and predict their future demand.

Clustering means to put objects in homogeneous groups, called “clusters”, on the basis of evaluation criteria of similarities among those elements, correlating those values assumed by a set of chosen attributes that describe and characterize them.

To group products, (but also customers or segments product-market) in clusters helps decision-makers in Marketing intelligence and Sales forecasting for mainly two reasons: the first one is that the study of the characteristics of homogeneity of products or markets within the same cluster gives useful and not trivial information to marketing managers for designing promotions or sales campaigns focus on a specific set of consumer target: consumers with similar purchasing characteristics would likely react in the same way to a marketing campaign designed ad hoc; the second reason is that the analysis of historical demand patterns of the segments (product-market) belonging to the same cluster, helps to understand retrospectively some characteristics appeared in the past, during specific promotions or in particular selling seasons. Furthermore, a new segment product-market can be put in a given cluster, whose members present analogous qualitative characteristics of attributes defining the cluster: the belonging of the new product to the cluster of products already in the commercial mix, helps the definition of the forecast for the new product, on the basis of analogies and correlations with the average historical series of the other products belonging to the same cluster.

Given the high number of skus involved and the many different attributes describing visibility materials, to organize them in clusters has been necessary for sustain demand planner in obtaining a more accurate forecast.

At first, one can think that to group them by their use/scope (e.g. group cups together) could be the perfect way to know the item and to be able to forecast its need, for example analyzing together all the testing material or service materials.

However, by watching at the trends of this items, they do not resemble each other in terms of numbers, seasonality, geographical distributions, timing of purchasing need, materials, production process, lead time, product complexity, price, final location/POS, neither for the value proposition they bear... what they have in common is only their mode of use by the final user, that does not help much with the forecasting decision.

What is excluded from the reasoning is the targeting, each category contains products of different ranges: standard, premium and exclusive. Maybe products are employed in the same way, but to belong to a different range means to have a completely different meaning for the strategic application/existence of the item.

Among the variables that can be chosen to bring them together, the one that makes it possible to split the work over the two employees that are in charge of visibility materials is the so called *stock cluster*.

In Lavazza, the stock cluster is defined by Supply Chain department, together with Demand Planning and the rule applied is grouping by considering both the management of specific product and a purchasing process KPI measured as rotation with respect to the corresponding minimum order quantity (MOQ).

When dealing with visibility materials, the most relevant clusters are the following:

MTS stands for Make To Stock: historical items characterized by a quite steady and regular trends and usually by a high rotation (KPI<6 months).

MDR stands for Make to Demand Request: those items that involve launches of new products or other specific materials generated by Marketing segmentation strategy (specific items for specific coffee blends); characterized by irregular trends and often seasonality with a long lead time. Many are NPD (new product development), not used uniformly by every Country. Rotation can be very slow (KPI 6-10 months).

Following this definition, it happens that the cluster is not a fixed attribute for the entire life of the product/code. Typically a MDR, once its trend is consolidated (1 or 2 years after its launch) and/or its KPI enters in a shorter range (<6 months), it can be classified as MTS. The other-way-round is extremely rare.

The portfolio of the visibility planner is mainly constituted by items belonging for ⅔ to MDR and ⅓ to MTS clusters.

With this separation, the two people in charge of forecast, managing respectively MTS and MDR, can get acquainted of recurring trends of the products belonging to the specific cluster: often the same cluster has the same producer and also the same customer (in terms of POS), and relationships with them can strengthen. Furthermore, their experience with the cluster make it less difficult to forecast the demand for a completely new item or the reactions of a specific market to a promotion.

5.3. Supply chain management: subsidiaries and distributors

When managing the sales forecast, the demand planner applies two different approaches, depending on whether it is addressed to a subsidiary or to a distributor, and consequently two slightly different forecast process are required.

Lavazza has a multinational market and so is necessarily the distribution of its offices, personnel and dislocated local warehouses in those Countries so far that are difficult to manage from Italy or that represent a geography-defined wide market. In these cases, they are considered autonomous entities, organizing their own orders, forecasting the local demand and also managing personal warehouses; they directly insert their forecast on CDMI system. These self-managed countries are called subsidiaries and, together with Italy, include Germany, France, USA, United Kingdom, Australia, Brasil, Argentina, Austria, Sweden.

There are also other international requests, that instead are served by drawing from the central headquarter and managed by local geographical representative, who rely on central demand planning department for the forecast, and these are the so-called “distributors”.

The impact of single distributors in not relevant on the production of visibility materials, that’s why for many years their demand forecast was entirely managed internally and always considered as aggregate quantity. Some of the distributors has grown in importance lately, at the point that a more accurate demand was needed, and punctual forecast was required.

In this respect, a supportive tool has been developed internally in order to facilitate data gathering for the expected demand from main distributors, that were not used to quantify their needs in advance. Only more relevant distributors are involved in this step.

Distributors’ tool

The relationship HQ-distributors has evolved over the years, becoming ever more collaborative and nowadays it has almost reached a balance in the respective roles.

As first try of involvement in forecast, distributors were given the entire catalogue of available products, and were asked to insert the desired quantities for the following periods.

In order not to burden the headquarter too much, with the need of deep analysis for each single request of distributors, the demand planning central department has decided to build a simple tool (very basic Excel file) in order to give the distributor the essential data that were necessary to make a rational forecast, mainly including the past requests with their trends and also some insights on the complexity of the product and some instruction to its use.

The introduction of the tool, at the end, has not lightened very much the work of the demand planner, since he has to prepared ad hoc updated sheet for every distributor involved, and eventually solicit them in the in time compilation of the file but at the same time it had made the distributors more aware of their role, of their impact and also of their needs.

The transition from a passive role to a more responsible involvement of distributors has not been easy and not all of them have still understood the importance of this strategic decision, however, results in forecast accuracy didn't take long to reflect the right choice.

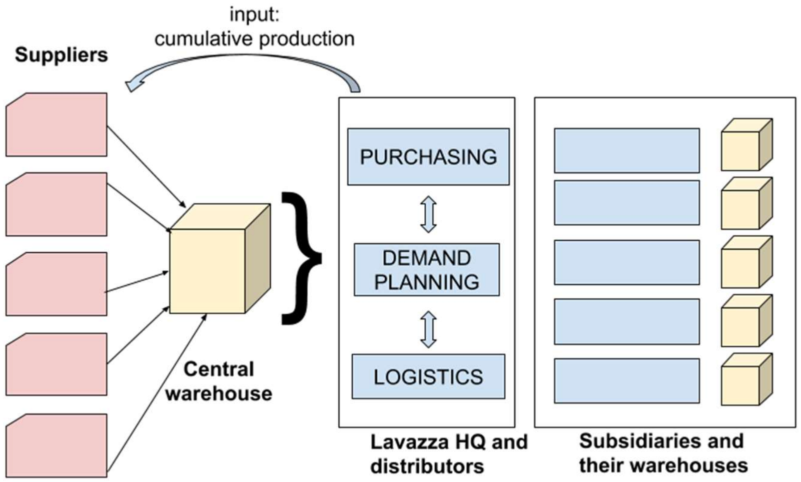
5.4. Sales rolling forecast activity

In this environment, in which multiple actors play different but correlated roles, data management is critical and determinant for orchestrating actions.

In the simplified scheme (fig. 5.1) one can observe the exchange of data and corresponding mobilization of products that take place between suppliers, headquarter and customers and within the involved departments of the company.

Not being aligned among the different entities (logistics, demand planning, purchasing, and quantities entering and exiting in warehouse) would be the most dramatic issue in any FMCG industry.

Figure 5.1 HQ Demand Planning as interface department



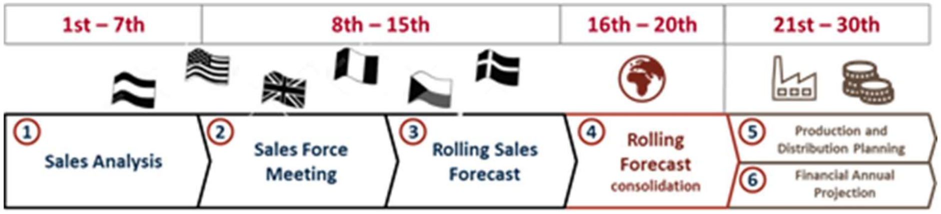
For this reason, CDMI contains all useful information needed to be shared, in this system the demand planner manually insert the forecasts and they are visible to the colleagues of other departments from the following day. The system is accessible from every department, but editing is allowed only to the belonging team.

Functionalities of this platform are wide and fall outside the scope of this thesis. (therefore, only the most relevant ones will be explained in detail.)

The process

The activities of demand planner follow a process in steps on monthly basis (fig.5.2) so that the personnel of the department is aligned in terms of deadlines and responsibilities (not only in the headquarter but extended all over the world); In such a way, also foreign departments can contribute and it is easier for the department manager to keep track of actions and analyze any contingency.

Figure 5.2 Rolling forecast process



In order to be as accurate and reliable as possible, the rolling sales forecast is pivotal, and the process is defined as that is the consequence of a series of interactions and steps that should be followed until the final consolidated insertion; those steps, repeated monthly, include an analysis of the trends of sales and meetings of discussion about results and possible inconsistencies, or new decisions taken in the company that will affect the future needs.

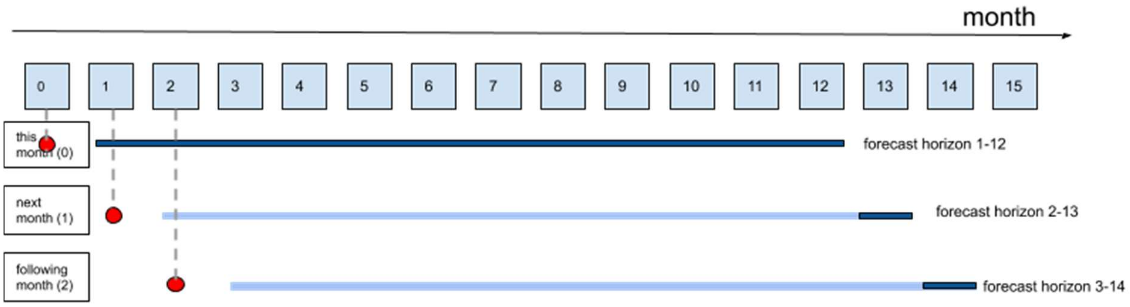
After that, having the final responsibility on the overall quantities, the central demand planning doesn't confine itself to its own numbers, but it is required to check if subsidiaries' and distributors' forecasts are in line with the market assumptions and the trend of the consumptions.

The third week of each month is dedicated to the final insertion, that becomes established (consolidated forecast) and it is finally published on the shared system CDMI each month on the 20th, resulting available for supply and logistic activities from the following day (the 21st).

Among the activities of demand planner, *sales rolling forecast* deserves a deepening.

This term has been coined to identify the process of monthly insertion and update of data in the system. Month by month, the demand planning department updates data in the system of the next upcoming 12 months, therefore 11 months adjustments + 1 month anew forecast, shifting (rolling) by one month at a time (fig.5.3).

Figure 5.3 Rolling forecast mechanism



It exists a specific function/sheet/page on CDMI intended to the sales forecast: it is an editable sheet, in which, once selected the geography of reference, and the other variables characterizing the assigned products, the demand planner can manually edit or insert from scratch the number representing the expected future needs in each month.

Numbers inserted should not only represent the needs of the market, but they should include in some way the objectives of the company for future months.

To do so the resulting forecasts take into account the consolidated trend of consumption, together with the strategic growth plan.

For what regard the visibility materials, the marketing plan propagates the objectives of the company (% growth) not simply evenly among all products, but reflecting the aim in terms of distribution (geographical expansion), targeting (shares per segment) and consumption (kg) of coffee into the corresponding materials, having a given budget as constraint. This leads to marketing actions that can include: the introduction of new products, re-launch of products, the introduction of new materials, sustainability awareness actions, the opening of new strategic markets, the opening of new strategic POS, the expansion of already working market, the introduction of new POS concept, the management of trade fairs and events, dimensioning of POS.

An alignment among strategic department, marketing department, central demand planning and subsidiaries is then required, and consequently new negotiations with the suppliers.

5.4.1. Sales forecast of visibility materials

Financially speaking, we have discussed what distinguish visibility materials from the others: the fact that Lavazza pays for their production, takes them in its warehouse but then gives them free of charge or as samples to the POS(*). Returns related to marketing and communication strategies are always uncertain a priori.

In this view, it becomes apparent that an accurate sales forecast is essential for the success of the marketing plan and the consequent respect of the annual growth plan and also not to overload warehouse with products already paid and with uncertain return.

First of all the demand planner has to collide with some constraints, already mentioned: the predetermined budget and the compliance with the production variables dictated by the buy-good relationship with the suppliers.

(*)From this reasoning are excluded requests from distributors, that are managed in a simpler way, since their product are invoiced, because each of them has its own customer to which applies its own strategies.

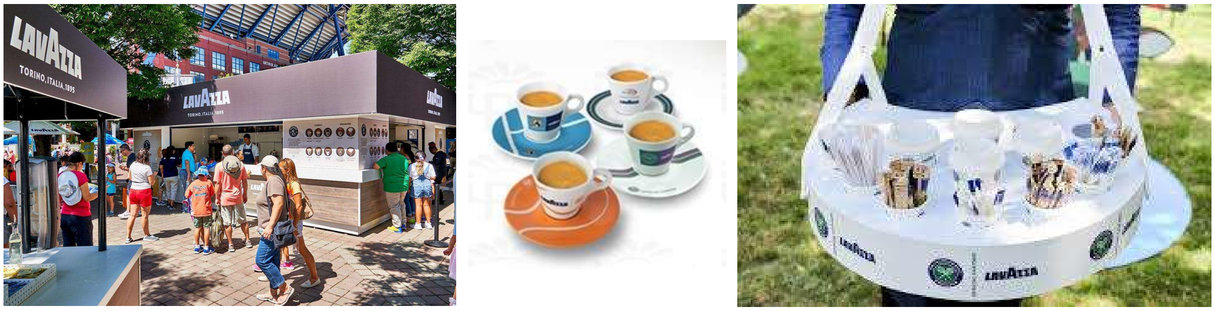
Another characteristic of the forecast that makes the work a continuous adjustment is the fact values inserted are susceptible to modifications, this can both represent a strength when applied to balance values, but can also appears as weakness, since the initial picture can not be brought fixed to the end.

Once the constraints are set, the sales forecast of visibility materials still encounter some difficulties in its elaboration, and those are due to the different factors affecting the demand, factors that makes it impossible to have recursing trends.(fig.5.6)

These triggers can be grouped in four interconnected areas:

- Trends: consolidated consumption, seasonal trends and holidays peaks, it can be said that the effect of this factor is the most predictable, since it is given by the time series analysis of previous years, increased by a 5-10% of predicted growth; it can be more difficult in case of a new product launched, however, as previously suggested, the belonging cluster and the most similar products can be taken as benchmarking for it.
- Calendar: events and trade fairs.(fig.5.6) What better occasion of brand awareness campaign and communication opportunity than to put products in evidence during events and trade fairs? Coffee breaks in famous conferences or during major sporting events are often organized in partnership with Lavazza, let's think about the tennis Grand Slam tournaments in Australia, France, England and USA, which have Lavazza coffee points during the matches; or presentations events for professional operators (e.g. HOST in Milan).

Figure 5.4 Lavazza visibility materials: Calendar events



TORINO, ITALIA, 1895

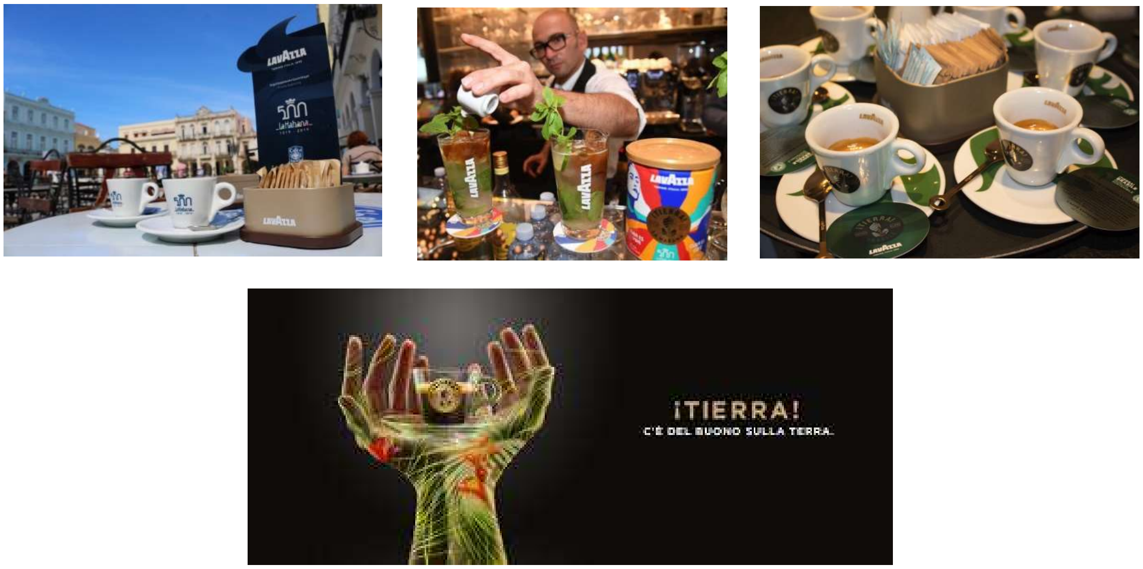
The presence of an event has an high impact of the forecast of visibility materials, but at the same time represents a peak una tantum, this means that be late with the production request would be a disaster, and so would be also if the event is suddenly cancelled.

This area has been the most hit by the lockdown period caused by Covid-19 diffusion, since all events have been cancelled without advance notice.

- Activation plans: to respect the marketing plan with the activations of new POS or launch of new product, visibility materials should be available in time and quantities arranged with the other business functions of the company, marketing in primis, and with the other partners of the activation.(fig.5.5)

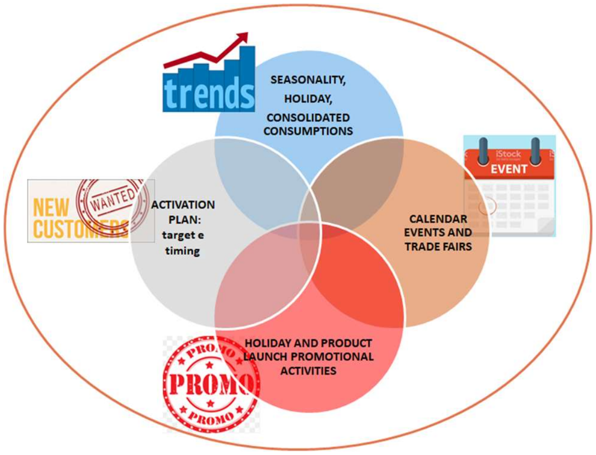
  An activation, therefore is difficult because it requires a pooling of resources and efforts and as any marketing activity, can have different result with respect to those expected (be it a flop or a underestimation)

Figure 5.5 Lavazza visibility materials: Activation plans



- Promo: activities organized to launch or re-launch a product, this type of events requires a huge amount of specific products, many times they are made ad hoc.

Figure 5.6 Factors determining the demand of visibility materials


trends
SEASONALITY, HOLIDAY, CONSOLIDATED CONSUMPTIONS
iStock
EVENT
NEW CUSTOMERS
WANTED
ACTIVATION PLAN: target e timing
CALENDAR EVENTS AND TRADE FAIRS
PROMO
HOLIDAY AND PRODUCT LAUNCH PROMOTIONAL ACTIVITIES

The link among these voices is tacit and vary from product to product and it does not allow the construction of a mathematical algorithm that gives a realistic number for a unique and accurate forecast.

This is what makes difficult the job of visibility demand planner, that can not just rely only on theory or on a mathematical model, but it is required to make reasonings about consumer behavior, and both experience but also foresight are necessary, finally a rapid adaptation to the changing needs and tastes and a pinch of common sense make the perfect planner.

5.4.2. The Complexity Index

An internal analysis on the efficiency of the work of demand planning department has highlighted the major sources of complexity for what concern visibility materials:

-*Segmentation*: specific ranges for specific targets create a high number of visibility products, with different constraints to be managed.

-*buy goods* all the materials are bought from a dozen third party suppliers, each of them characterized by specific production priorities and production processes.

In order to heal the work of the demand planner, it has been internally developed a priority index, computed for every visibility product (and now is spreading to other products), to give an order of importance to the sales forecasting and to its accuracy. It is named “Complexity Index”, since it measures on a scale from 1 to 5 how much is difficult to produce the item, where 5 stands for “the most difficult” and, implicitly, for “it needs more attention”.

The index is computed as the mean value of the three parameters that explain complexity in dealing with the supplier: Lead time, production process and rotation vs. MOQ.

- Lead time

  The time that elapses from the request to the supplier up to the receiving the product in warehouse; it spans from less than one month up to more than three.

- Production process

  This measure is qualitative, because it depends on both the sensitivity of the material and the complexity of the production technique and the scale 1-5 is defined based on concrete examples of processes executed, by taking into account the specificity of the machinery needed, the cost of operations, the logistics of the operations.

- Rotation vs. MOQ

  This parameter measures how fast the item moves, in terms of how many months a single batch lasts in the warehouse on average, it is computed as the ratio of the average monthly demand and the minimum dimension of the order (MOQ); it spans from 1 week to over 2 years.

These three KPIs, together with the creation of clusters, cover also the complexity generated by the *segmentation*.

Table 5.2 shows how relative indexes are assigned to the three parameters.

Table 5.2 The three KPI determining the Complexity Index

Lead time(LT)	
1	LT<1 month
2	1<LT<2 months
3	2<LT<3 months
4	3 months
5	LT> 3 months

Production process (reference examples)	
1	No constraints in production process, standard porcelain manufacturing
2	Porcelain with a slightly more complex industrial process with respect to the standard one
3	Porcelain manufactured through slip casting, double-walled porcelain, decoration process inglaze, foreign supplier with low productive priority, galvanic bath
4	More than one supplier in the production process, low productive priority with respect to quantities needed
5	Scarce raw material, biodegradable material, semi handcrafted production process

Rotation vs.MOQ (RM)	
1	RM<1 months
2	RM <3 months
3	3<RM<12 months
4	1<RM<2 years
5	RM >2 years

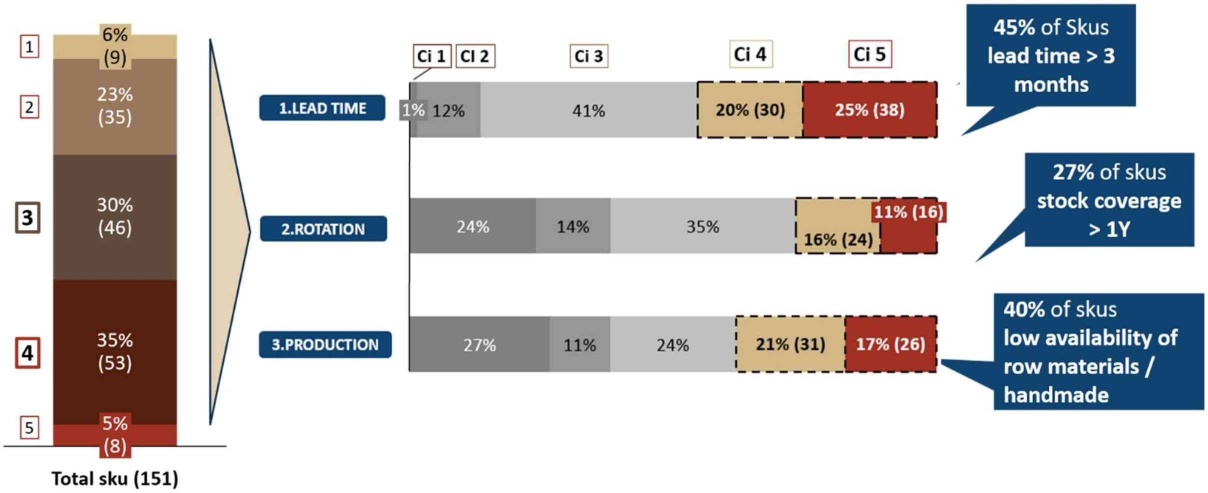
By going in depth in the portfolio of visibility materials in the Away From Home sector (in 2018), as figure 5.7 shows, it is varied and quite balanced: few items have extreme values (1,5), while the central measures (2,3,4) are quite homogeneous, weighting a bit more toward higher values, this is demonstrated by computing the weighted overall value of CI of the represented portfolio:

$$\frac{\sum_{i=1}^{5} C_i}{\sum_{i=1}^{5} C_i * n_i} = \frac{1\cdot 9+2\cdot 35+3\cdot 46+4\cdot 53+\ \cdot 8}{151} = 3{,}11$$

Most of the complexity is explained by lead time and production process terms, and it is compensated by rotation KPI.

In general, a portfolio in which items characterized by complexity levels 4 and 5, considered together, cover the 40% of the whole portfolio, is to be considered a medium-high complexity portfolio.

Figure 5.7 Portfolio of visibility materials AFH, per complexity



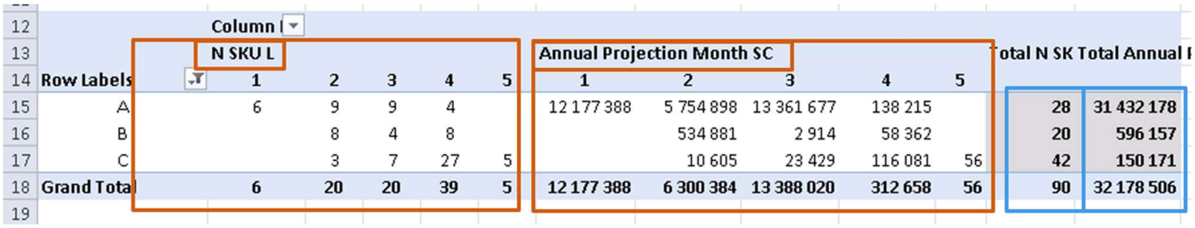
Up-to-date levels of complexity index for each item are integrated in CDMI system.

In this way, each department or even whole sales organizations can weight their portfolio in terms of number of items representing each level, but also see how much each level weights in terms of volumes of sales.

Furthermore, employees can make analyses after having ranked items by complexity, giving priority and a more accurate attention to the more complex ones.

Figure 5.8 shows an extract from CDMI including a possible analysis of the structure of a given portfolio.

Figure 5.8 CDMI excerpt of a portfolio analysis per CI



		Column l											
13		N SKU L					Annual Projection Month SC					otal N SK	Total Annual
14	Row Labels	1	2	3	4	5	1	2	3	4	5		
15	A	6	9	9	4		12 177 388	5 754 898	13 361 677	138 215		28	31 432 178
16	B		8	4	8			534 881	2 914	58 362		20	596 157
17	C		3	7	27	5		10 605	23 429	116 081	56	42	150 171
18	Grand Tota	6	20	20	39	5	12 177 388	6 300 384	13 388 020	312 658	56	90	32 178 506
19													

What the figure suggests is that this portfolio is made by 90 different items (Total N SKU), generating around 32 millions pieces in volumes over the year; the value of complexity more represented by items is 4 (39/90), however there is a good balance between items with medium-low values (1-2-3) and medium-high ones (4-5).

At the same times volume analysis (Annual Projection Month SC) says that the highest amount is generated by medium-low level items.

What one can conclude is that the entity with these results manages a portfolio with a lot of skus with high CI, that generate low volumes.

As for the clusters, the complexity index in not a fixed parameter of products, it can change because of the change of supplier with one that uses a different process or that is faster, the introduction of new materials can bring to an amendment of the scale, negotiation with supplier can bring to a heavy reduction of the MOQ, a change in consumers' habits can make a product a slow-moving by reducing its use or the reverse situation is possible.

The complexity index has improved results in terms of efficiency of the forecasts and also in terms of dealing with suppliers, but at the same time, it requires a constant updating of the scale and of the association product-index.

5.4.3. Contingency management

The previous paragraphs have highlighted the sources of possible contingencies that the department can face, demand planners are well aware of them, and a problem solving attitude is required for the success of their work.

For what concern visibility materials, it has become good practice to make the "portfolio check" as first action of the office routine.

It consists in scrolling, product by product, the daily data about the forecasted demand and how it's actually going, checking when the next delivery from supplier is foreseen and if the quantities forecasted are sufficient; this analysis is visually aided by colors: a red bar means the product is about to be out of stock, while a blue one is for product with enough stock (if everything keep proceeding like this).

The check allows to spot incongruences in time and act accordingly.

Those can be related to late deliveries, that usually means to get in touch with the supplier and investigate if the delay has some root problems, another typical mistake is related to quantities not forecasted and then asked by distributors. If a number out of the trend is spotted, the specific need is analyzed: can it be delayed (so that the planner can insert the volume in next forecast)? Could it be a problem to switch the product with a similar one stuck in the warehouse for months? Should the request be accepted, is there any other consumer that can do without?

Any time a contingency is faced, it is important to understand who is geographically the leader for that product, index that constitutes the priority order for the acceptance/ denial of the requests.

This routine is simple and quite fast, especially once the most subjected and critical products/suppliers/distributors and also recurring dynamics are experienced and known, and it allows a first screening and a fast response to the incoherencies.

Sometimes, however, it is not enough.

There are cases in which demand planning has to face bigger problems in a different way, by deep analyzing the situation, by dealing with agents involved and by finding an ad hoc solution.

Two business cases and how their have been managed are now presented:

- **Sudden brake of contract with a big distributor**

As previously explained, distributors have gained autonomy over years in the forecast process. Demand planners build relationships with them based on trust and this enable quicker process.

Distributors are also characterized by autonomy in business strategy: they don’t follow the plans of the company, but they manage their own ones (POS served, target, volumes), even though big distributors partially impact on results of the company.

This way of managing partially simplify the work of demand planner, because he does not need to investigate too much the existence of coherence in their strategy, but only confirm the availability of products in the central warehouse.

Self-management of distributors becomes detrimental in case of contract ending abruptly, particularly in case of big distributor with a lot of ongoing requests and a lot of product stuck in their own warehouses.

Should that happen, demand planning department together with logistics have to act immediately.

Actions required to be taken is to freeze ongoing production, if it is not possible then allocate those product on future deliveries to other customers together with the corresponding reduction of their next future forecasts and look for a substitute/more than one smaller substitutes to cover the POS that still want to serve your product and sign contracts and build with them new relationships.

All these action require a strong communication and information flows and ad hoc task force to face the problem.

- **Sudden change of consuming habits**

Among the triggers that generate demand, consolidated consumption is the most easy to forecast because it is characterized by substantial/significative data to be confident in the established trend.

It can happens that exogenous factors, not easily predictable, affect the trend and question the affordability of past time series.

A recent example is the impact of lockdown period due to Covid-19 that has interested the entire world.

Coffee industry has been heavily hit because in few months people habits have drastically changed: HoReCa channel in primis, since points of sale were forced to close. Also OCS channel suffered huge losses. Consumption of coffee has simply change face: people locked in their home started consuming coffee there.

At the beginning of May 2020, measures have started loosen up and merchants slowly have reactivated their business; things had changed, people were still not allowed to enter the point of sale or to take a seat, due to safety measures, but they were allowed to take their coffee away and drink it on the way.

From the internal point of view, this situation has been dramatic: demand of coffee in the cafes has decreased dramatically and, as a consequence, so did most used materials in this environments, among which visibility materials, first among all porcelain cups.

Not only some of these materials were requested in huge volumes, but they were also produced in short lead time, because of their low complexity.

The result has been a very complex management of central warehouse, that faced very low exit of goods against a steady entrance of end-products, almost reaching level of saturation.

To tackle this situation, sales forecastings for the next months have been halved: coverage was ensured by the stock.

At the same time, demand increased significantly for the takeaways materials, which, instead, has a more difficult production process and higher lead time, not allowing to cope with the demand.

Alternative proposals were discussed with the supplier of “take away”s to manage the situation.

Strong cooperation among different departments and parties involved (subsidiaries, distributors, suppliers) has been necessary to structure an action plan for the post-covid complete re-openings.

Control and action

A series of precautionary actions are taken to monitor forecast and maximize its efficiency, often involving other departments.

Apart from the daily check routine, previously mentioned, there is a continuous monitoring of performances, such as the *forecast accuracy index* or the average levels of stock, carried out by Trade Marketing department.

Demand planning must ensure that guidelines, shared throughout the entire company to meet the defined targets, have been correctly understood; for this reason, HQ demand planning departments organizes twice a year a global meeting, in which representatives of subsidiaries’ demand planning departments can meet and share their results and their gained experience, and they get updated on the most recent innovations brought by central department. These meetings revealed themselves to be very fruitful, often solving those inconsistencies that are due to misunderstandings fostered by distance.

Furthermore, in 2019 the department has started a tracking activity of the most frequent requests received and of the emerged issues, to identify possible root problems. Results of this task have shown that this kind of incidences could be traced back to a limited number of causes: “inconsistent rolling”, “events related requests” “operations”, “new customer activations”, “promotional activities” and “stock issues”.

The task also includes country-specific analyses, to understand which are the most impacting causes for each subsidiary, enabling to act with locally targeted interventions for solving specific problems.

Finally, to ensure an acceptable average level of stock, twice a year a deep analysis on slow-moving items is conducted, in order to identify reasons of their stickiness. This analysis, conducted with the other department involved, is followed by decisions on how to managed the more problematic items, this actions include the proposal of alternative exit mode (e.g. promotional activities involving those items) or to suggest options for their disposal.

To ensure an efficient management, it is important that the company identifies the failure or the end of success of its products and it should be ready to put an end to their production, rationalizing the ranges of items managed.

6. Conclusions

First aim of this thesis was to raise awareness on the visibility materials marketing instrument, mostly unknown to who does not work in the marketing branch.

What has emerged from the discussion is that the success of such products lies it the role of acting at cognitive level on the perceptual space of the consumer, unconsciously orienting his choice.

Psychological implications has not been addressed in this thesis work, because they fall outside the field of competence, however, to take them into consideration is essential for the development of a successful marketing plan.

This work focused on the chance of exploiting the POS customization to reach different customer targets and on the importance of details: an integrated communication throughout the entire product lifecycle has revealed itself to be determinant, especially in FMCG industry.

For this reason, Lavazza, which has defined four consumer targets, offers to the POS a wide range of materials , associated to the different blends.

Given that, comparison analyses on research and development investments on different coffee blends are the most straightforward manner of checking if actual commitment is coherent to the ex-ante defined company's growth plan, the position of the POS in the value-chain as interface between the core product and the final consumer and its strong correlation with the choices regarding coffee offer have raised the question whether investments in visibility materials may be considered as a proxy for the whole strategic directions taken by the company management.

Therefore, the second aim of the thesis, after having test the real correlation between launches in coffee products and the company strategic objectives, was to verify the existence of a contingent and proportional commitment on the associated visibility materials.

Outcomes of the analysis conducted on TIERRA product line, principal representative of the premium range, confirmed the hypothesis.

Lavazza marketing department is certainly aware of the importance of this instrument, and this is demonstrated by the multi-year experience of collaborations with big names of design studios, however, results seem underline a further increasing interest in their application.

To investigate this new hypothesis is not doable at presence, given the limited time-series of data available.

However, it is of relevant importance that marketing department starts keeping track of company's efforts, in order to be able, in the near future, to value the potential effectiveness of this instrument .

This is particularly urgent because these kind of investment phenomena usually show a "inverted U" shapes performances increases with the investments, up to a certain point when they may result in a detrimental effect if costs of development become higher than generated returns and to know the position with respect to that threshold can make the difference.

Previous reasonings paved the way for further investigations to develop some rules to measure the impact of visibility materials in driving strategic plan success.

This is a very ambitious challenge, due to several limitations, first among all the fact that psychological factor is hardly measurable. The only instrument that can be used is a massive market research , done by interviewing target consumers.

At present, Lavazza does not carry out this specific analysis but the company relies on data from agencies that deal with consumers’ behavior statistics in the food and beverage industry (such as TradeLab), this is attributable to the fact that researches are costly and bear the risk of don’t bring anywhere useful and result interpretation can be misleading.

Another factor preventing from deepening the analysis is the hard task of measuring an expected return from investment in marketing strategies, because they have an indirect effect on sales and also because it is onerous to trace back the specific financial voices that determine the success or the failure, given the strong collinearity among them.

Despite these barriers, to know in depth this marketing instrument, nowadays, is essential to guarantee sustainability of company competitive advantage.

References:

[1] “What Is Marketing? — The Definition of Marketing — AMA.” *American Marketing Association*, https://www.ama.org/the-definition-of-marketing-what-is-marketing/.

[2] “The concept of Marketing mix” Neil H. Borden – Journal of Advertising Research, Classics, Volume II, September 1984

[3] Kotler, Philip, and Gary Armstrong. *Principles of Marketing*. 15th ed, Pearson, 2014., pp.74-78

[4] Kotler, Philip, and Gary Armstrong. *Principles of Marketing*. 15th ed, Pearson, 2014, pp.156-173

[5] Brancale, Federica. *Come scegliere la Strategia di Comunicazione per la vostra attività?* https://www.themarketingfreaks.com/2014/05/come-scegliere-la-strategia-di-comunicazione-adatta-per-la-vostra-attivita-ecco-le-5-tecniche-da-esaminare/.

[6] Kotler, Philip, and Gary Armstrong. *Principles of Marketing*. 15th ed, Pearson, 2014, pp 264

[7] *Brand Management - Equity Models - Tutorialspoint*. https://www.tutorialspoint.com/brand_management/brand_management_equity_models

[8] “Brand Equity Model | Reviewing the Concept of Brand Equity.” *Research Leap*, 31 July 2015, doi:10.18775/ijmsba.1849-5664-5419.2014.18.1002

[9] Huang, Rong, and Emine Sarigöllü. “How Brand Awareness Relates to Market Outcome, Brand Equity, and the Marketing Mix.” *Journal of Business Research*, vol. 65, no. 1, Jan. 2012, pp. 92–99. *DOI.org (Crossref)*, doi:10.1016/j.jbusres.2011.02.003

[10] Saleem, Salman, et al. “Conceptualizing and Measuring Perceived Quality, Brand Awareness, and Brand Image Composition of Brand Loyalty.” *International Journal of Marketing Studies*, vol. 7, no. 1, Jan. 2015, p. p66. *DOI.org (Crossref)*, doi:10.5539/ijms.v7n1p66

[11] Aaker, David A. *Managing Brand Equity: Capitalizing on the Value of a Brand Name*. Free Press ; Maxwell Macmillan Canada ; Maxwell Macmillan International, 1991.

[12]Interbrand. “Best Global Brands 2019.” *Interbrand*, https://www.interbrand.com/best-brands/best-global-brands/2019/.

[13] “BrandAsset® Valuator.” *BAV Group*, https://www.bavgroup.com/about-bav/brandassetr-valuator.

[14] *BrandZ | Home*. https://www.brandz.com/

[15] ttps://thereputationsagency.ie, The Reputations Agency. “Global RepTrak® 2019 Report.” *The Reputations Agency*, https://thereputationsagency.ie/reptrak/reports/2019/03/08/global-reptrak-2019-report

[16] Valos, Michael J. “Structure, People and Process Challenges of Multichannel Marketing: Insights from Marketers.” *Journal of Database Marketing & Customer Strategy Management*, vol. 16, no. 3, Sept. 2009, pp. 197–206. *Springer Link*, doi:10.1057/dbm.2009.21

[17] Neslin, Scott A., et al. “Challenges and Opportunities in Multichannel Customer Management.” *Journal of Service Research*, vol. 9, no. 2, Nov. 2006, pp. 95–112. *DOI.org (Crossref)*, doi:10.1177/1094670506293559

[18] Payne, Adrian, and Pennie Frow. “The Role of Multichannel Integration in Customer Relationship Management.” *Industrial Marketing Management*, vol. 33, no. 6, Aug. 2004, pp. 527–38. *DOI.org (Crossref)*, doi:10.1016/j.indmarman.2004.02.002

[19] Abbing, Erik Roscam. “On the Origin of Touchpoints.” *Design for Service*, 7 Nov. 2007, https://designforservice.wordpress.com/2007/11/07/on-the-origin-of-touchpoints/.

[20] Milanato, Damiano. *Demand planning: processi, metodologie e modelli matematici per la gestione della domanda commerciale*. Springer, 2008, pp.21-29

[21] Kotler, Philip, and Gary Armstrong. *Principles of Marketing*. 15th ed, Pearson, 2014, pp 358-361

[22] *International Coffee Organization - What’s New*. http://www.ico.org/

[23] Kenton, Will. “Why Fast-Moving Consumer Goods Matter.” *Investopedia*, https://www.investopedia.com/terms/f/fastmoving-consumer-goods-fmcg.asp

[24] *Storia del caffè*. /content/lavazza/it/magazine/coffee-culture/coffee-sips/storia-del-caffe.

[25] “The Top Coffee Consuming Countries.” *WorldAtlas*, https://www.worldatlas.com/articles/top-10-coffee-consuming-nations.html.

[26] “Brand Reputation Monitoring - Social Monitoring.” *Nomisma*, https://www.nomisma.it/servizi/business-information-e-market-intelligence/brand-reputation/.

[27] Muraca, Marco Emanuele. “Scenario competitivo mercato caffè Italia: i principali produttori.” *beverfood.com*, 16 Aug. 2019, https://www.beverfood.com/scenario-competitivo-mercato-caffe-italia-principali-produttori-wd/.

[28] Fatima. “Mercato Italiano Caffè 2017: i principali gruppi competitori.” *beverfood.com*, 19 Mar. 2018, https://www.beverfood.com/mercato-italiano-caffe-2017-i-principali-gruppi-competitori-wd105994/.

[29] Luca De Angelis. *IL SETTORE DEL CAFFE’. PANORAMICA SUL MERCATO GLOBALE E ANALISI DEL C…*. https://www.slideshare.net/LucaDeAngelis13/il-settore-del-caffe-panoramica-sul-mercato-globale-e-analisi-del-caso-italiano.

[30] firma, Beverfood com no. “Coffitalia 2020 Annuario.” *beverfood.com*, 2 July 2019, https://www.beverfood.com/downloads/annuario-coffitalia-caffe-italia20/.

[31] *Data-Driven Solutions for Marketers I Tradelab.Com*.

[32] ”Il mercato locale”,Lavazza internal presentation for Induction program 2019

[33] Kotler, Philip, and Gary Armstrong. *Principles of Marketing*. 15th ed, Pearson, 2014, pp.213-228

[34] *Company*. /content/lavazza-com/en/chi-siamo/company

[35] “L’azienda”,Lavazza internal presentation for Induction program 2019

[36] “Il business”,Lavazza internal presentation for Induction program 2019

[37] “Communication”,Lavazza internal presentation for Induction program 2019

[38] Lavazza annual report, 2018 and 2019

[39] *Lavazza è “Superbrands of the year” 2018*. /content/lavazza/it/chi-siamo/media-center/lavazza-e-superbrands-of-the-year

[40] Beverfood.com, Redazione. “La comunicazione Lavazza premiata agli Nc Awards 2019.” *beverfood.com*, 21 May 2019, https://www.beverfood.com/comunicazione-lavazza-premiata-nc-awards-2019-wd148414/.

[41] *User Account | Lavazza Trade World*. http://www.tradeworld.lavazza.com, MSF2.0_EInteractive_Final

[42] ”LAVAZZA HO.RE.CA design collection”, presentation by Virginio Briatore, 2010

[43] Internal communication, 9 June 2020

[44] *Training Centre*. /content/lavazza-com/en/chi-siamo/training-center

[45] Spot A Modo Mio “A casa come al bar”, 2019, *YouTube*. https://www.youtube.com/watch?v=jaCKsHHr8Sk.

[46] Spot “More that italian” , 2019 ,*YouTube*. https://www.youtube.com/watch?v=_Ve67YJyJI4.

[47] Milanato, Damiano. *Demand planning: processi, metodologie e modelli matematici per la gestione della domanda commerciale*. Springer, 2008, pp.17-19, 46-47, 70-71