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Coffee industry market strategies in developing countries

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Abstract

Coffee, which, after natural gas, represents the most exported raw material out of the total world value of exports, could be considered the colonial good par excellence.

Everyday millions of people spend 165 million dollars to buy it, while for over 25 million farmers, scattered between Central and South America, Africa, Asia and Oceania, coffee is the only source of income. Such a situation exposes farmers and their families to a considerable risk, not only because of the meteorological events and the voluptuous nature of coffee consumption but, above all, because of price trends on the international market.

The purpose of the following thesis is to analyze firstly the Italian and then the international coffee market not only in terms of volumes, but also social and cultural relevance.

The Italian competitive benchmarking and the demand for coffee will be examined, taking into account both the pre and post pandemic *status quo*. Furthermore, Lavazza Group, one of the main international players will be introduced with a deep focus on its several brands and businesses.

Moreover, the attention will shift on Lavazza's marketing strategies. Customers are continuously changing their products and services expectations; thus, firms are trying to retain their competitive advantage through advertising, differentiation strategies and attempts to penetrate emerging and profitable markets.

Finally, the international benchmarking will be taken under discussion, indeed Lavazza is reinforcing its international presence through the opening of various coffee shops all around the world to increase its market share.

In particular, the Group strengthened its worldwide presence in China through a 35% joint venture with *Yum China*, a local leader in the retailing industry. The Lavazza Group intends to attract Chinese customers promoting the transition from tea to coffee drinking habits by utilizing its 126 years of experience, vast coffee knowledge, and a worldwide brand.

1. The coffee

1.1. History and legends of coffee

The discovery and the first diffusion of coffee are wrapped in a cloud of mystery and legend, there are several stories that are handed down on the origin of the drink.

The mystic Abu I-Hasan al-Shadhil

Among the various stories there is one that tells the life of the berber and mystic Sufi Abu I-Hasan, an Ethiopian legend says that, observing an unusual vitality in some birds, the Sufi try to taste berries that the birds were eating, suddenly he felt a great energy pervading his body

The Sheik Omar

Other legends try to clarify the history of coffee, his discovery would be attributed to a disciple of the Shadhiliyya called Omar.

According to the ancient chronicle, preserved in the manuscript of the Persian Abd al-Qadir Maraghi, Omar, known for his ability to cure the sick with the sole power of prayer, was exiled from Mokha (Yemen cities on the Red Sea coast) to a deserted cave near Ousab in present-day Eritrea. He also tried to chew the berries collected from some shrubs located nearby, but he found them bitter taste. He then began to chop them to improve their taste, but they became harder and inedible. Thus, he tried to boil to soften the berries, producing a fragrant dark liquid. After drinking it Omar was able to remain without food for whole days, when the stories of this “miracle drug” reached Mokha, Omar was allowed to return in town and was later made a saint.

The Ethiopian pastor Kaldi

Another story concerns a 9th century Ethiopian pastor named Kaldi.

Noting the energizing effects that his flock suffered after browsing the bright red berries of a certain brush, he began to chew them himself. Seized by the euphoria that ensued, he took the berries to a monk in a nearby monastery, but he did not approve of their use and threw them into the fire. Then, an intense perfume came out making other monks flock, intrigued by the smell, so the roasted berries were quickly drawn out of the embers, pulverized, and dissolved in hot water. Here it is the story of the first cup of coffee in the world.

History of coffee, the known part

Already between the fourteenth and fifteenth centuries, there are testimonies that reveal how the coffee was particularly widespread in Arab countries. One of the most important early coffee writers was Abd al-Qadir al-Jaziri, who in 1587 compiled a work that traces the history and legal and religious disputes concerning coffee. He reported that the Sheik of Aden was the first to adopt the use of coffee in 1454. He discovered that, among his properties, there was also to drive away fatigue and drowsiness and, at the same time, give the body a certain agility and vigor.

The coffee plant was very popular because it was considered magical and, for this reason at the beginning the Arabs forbade its export so as not to make known the invigorating properties.

Originally from Kaffa, a territory ruled by the Solomonic Dynasty throughout the Middle Ages, the *Coffea Arabica* was introduced in Yemen and here it was cultivated and exported from the port of Mokha/Mocha (from which the name will take the Moka, coffee maker designed by the Italian Alfonso Bialetti in 1933).

The Arab country had long and intense trade relations with the Empire of Ethiopia, about 50,000 hectares of coffee were cultivated in the two countries, in Arabia coffee was used to stay awake during night prayers but also with healing purposes.

In the fifteenth century the first coffee shops in all Muslim countries began to spread, they were meeting places where men consumed bitter coffee in a context of music and games.



Figure 1.1., Coffee origin areas along the Red Sea coast between Yemen and Ethiopia, source: <https://www.caffesemplice.it/la-storia-del-caffe/>

The first coffee shops

In 1414 the beverage was known in Mecca and at the beginning of 1500 it was spread in the Mamluk Sultanate and North Africa. A myriad of "coffee houses" were born in Cairo, especially around al-Azhar University, soon after they were opened in Syria, especially in Aleppo, while the first café on European soil opened in Istanbul in 1475. Even today in Turkey coffee is prepared in the *cezve* (pot), a copper and brass jug with a long handle. In 1630 only in Cairo there were thousands of cafes derived from the legend of Sufism linked to the coffee.



Figure 1.2., Typical Turkish Cezve for drinking coffee, source: <https://www.caffesemplice.it/la-storia-del-caffe/>

That's why, despite being a drink loved by the majority, the exciting effects did not meet the favor of Islamic law, it was soon banned in public places and all cafeterias were closed. When the Sultan of Egypt continued to authorize its consumption and the coffee reached its highest spread, it was

tried to stop its success by declaring that it was the “drink of the devil” and that its consumption caused irreparable damage, but it didn’t end the coffee story. By now coffee had conquered the heart and palate of all, continuing to be drunk.

The history of coffee continued in the salons and shops of France in 1644, in England in 1652, in the United States around 1670, in Germany in 1679.

History of coffee, when does it arrive in Italy?

The history of coffee in Italy begins in a precise date and place: in 1570 in Venice, when the Paduan Prospero Alpino brought some sacks from the East. The active mercantile exchange between the Republic of Venice and the Muslims of North Africa, of Egypt and the Ottoman Empire led to the introduction of a wide variety of goods, including coffee, right on the routes of Venice, one of the main European ports of the time.

The Venetian merchants introduced coffee to the Venetian aristocracy, although with different insistences, but in a short time, it spread also in the mainland, first among students, teachers, and visitors of the University of Padua.

In 1683 the “All’Arabo” café was inaugurated in Piazza San Marco. In short, the city could count a total of 200 cafes of which about thirty overlooked the prestigious Piazza, in 1720 it opened the Caffè Florian, still today the oldest coffee in the world.



Figure 1.3., The oldest café in the world still in existence, Caffè Florian of St Mark's Square in Venice, source: <https://www.caffesemplice.it/la-storia-del-caffe/>

At first the drink was sold in pharmacies, but the high cost of the product was mostly attractive to the wealthier classes, anyway this was no reason to stop the success of coffee.

Naples, despite being known today as the city of espresso, only later knew this historic tradition. Its spread came through foreign ships that docked in the ports of Sicily and Naples itself. Celebrated

by art, literature, music and the Neapolitan social life, the cafe soon became the protagonist in the city of Naples. It was prepared with great care in the "cuccumella", the typical Neapolitan filter coffee maker derived from the invention of the Parisian Jean-Louis Morize in 1819.

Figure 1.4., *The Neapolitan "cuccumella" invented by the Parisian tinsmith Jean Louis Morize in 1819*, source: <https://www.caffesemplice.it/la-storia-del-caffe/>



From this moment coffee begins to become the beverage that most of all recalls that sense of conviviality and family that are among the founding values of Italy. Coffee begins to be an opportunity to meet friends and lovers, who shared in coffee shops the unique taste of this drink.

The coffee arrived in all regions of Italy capturing the unique flavor.

Spread of coffee from Europe around the world

The interests linked to the coffee trade grew enormously, and with them grew the determination to remove the Arabs monopoly on the beverage.

In 1658, Holland succeeded in stealing - despite the strict vigilance of the Islamic authorities - some coffee plants, transferring them to the tropical lands of Ceylon (now Sri Lanka) and Java (in Indonesia). Through the East India Company, the Netherlands established itself as a point of reference for the European coffee market.

The plants that the Dutch merchant Pieter van der Broeck had stolen from Mokha more than forty years earlier, adapted to the local climatic conditions in the greenhouses of the botanical garden of Amsterdam.

They produced numerous and luxuriant *Coffea arabica* bushes. In 1690 the Dutch employed them to begin coffee cultivation in Ceylon and later in southern India. They then abandoned these crops to concentrate on the plantations of Java to avoid lowering the price by overproduction.

Within a few years the headquarters of the Dutch colonial empire (in addition to Java in the Dutch East Indies and Dutch Guiana) became the main suppliers of coffee to the entire European continent.

France joins the trade

For the next half century, the Dutch (and the East India Company) remained the masters of European trade, until the resounding misstep, when in 1714 the mayor of Amsterdam offered the king of France Louis XIV, as a special gift, two coffee plants in bloom.

They were placed in the royal greenhouses of Versailles and here, a former naval officer, Gabriel Mathieu de Clieu, stole one of the plants and transported it across the Atlantic, thus starting coffee growing in French Martinique, an island in the Antilles.

In 1726 the gentleman-thief of coffee made his first harvest, in the following fifty years, the plants of Martinique reached the number of twenty million, managing to satisfy almost all the European demand; soon the plantations extended to all the Caribbean area, from Haiti to Jamaica, up to Cuba and Puerto Rico.¹

¹ <https://www.caffesemplice.it/la-storia-del-caffe/>

1.2. Coffee varieties

The coffee plant (*Coffea*) belongs to the class of dicotyledons, which in turn are part of the phanerogams. It is an evergreen shrub that can reach ten meters in height (in fact from the botanical point of view it is classified as a tree) and it is widespread in all tropical regions. What it is commonly called "coffee bean" is nothing more than the seed contained in the drupe, the fruit of the plant: red in color, it resembles a cherry in appearance and shape.

The species of coffee existing in nature are many, there are more than 50, but only two, Arabica and Robusta, are generally used for commercial production.

A brief study on coffee beans allows us to discover that these are divided into three types depending on the stage of processing and production that we consider:

- "Cherry", when the grain is just picked with its characteristic red color.
- It is called "Parchment suka", instead, when the coffee, after being collected and having undergone the separation between seed and peel has a cover called "pergamino", which better preserves the coffee beans and is eliminated before roasting.
- Finally, we talk about "Block Beans" when the coffee has just been washed and is therefore still wet.

1.2.1. Arabica (*Coffea Arabica*)

Arabica is the most popular species and blend, cultivated and selected for several centuries: it is the most valuable plant type and represents 75% of all the world's coffee production. Born in the mountainous regions of Ethiopia, Arabica coffees have a very round taste, are slightly acidic and often have chocolate notes.

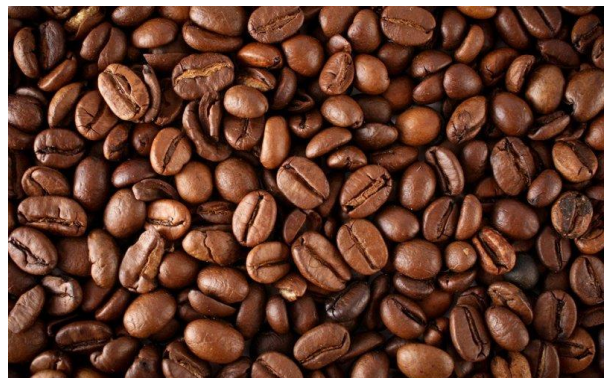
Their aroma is intense, and the cream has a hazelnut color tending to reddish with a pleasant hint of bitterness.

Arabica grows well in soils rich in minerals, especially those of volcanic origin, in addition the area and composition of the soil in which the beans are grown can also affect the balance of flavors described above, then the roasting chosen will affect the gradation of the taste notes.

It is a plant very sensitive to heat and humidity: it grows at altitudes between 900 and 2,000 meters above sea level and the climate must not exceed 20 °C. The higher the percentage of crops, the better the organoleptic qualities of the roasted bean.

The Arabica bean has an elongated shape, with a vaguely S-shaped groove, copper green, intense, with shades that turn towards blue: the amount of caffeine contained varies from 1.2% to 1.7%.

The most renowned variety of Arabica is the one called "Moka", cultivated especially in Yemen, Arabia. The name comes from the flourishing port city of Moka, an exporter of coffee between the fifteenth and nineteenth centuries: it is characterized by small beans and a strong aroma.



The other varieties are for example the "Typical", the one widespread in Brazil as the "Bourbon" and the "Maragogype" characterized by very large grains.

Indeed, the major producers of Arabica quality are Brazil with 2,594,100 tons of coffee in 2016 and Colombia with a production of Arabica of 810,000 tons per year.

Figure 1.5., Arabica coffee beans, source: <https://alimentazione360.it/prodotti-della-natura/varieti-di-caffe-tutte-le-tipologie-in-commercio>

1.2.2. Robusta (*Coffea canephora*)

Robusta is characterized, since the name, by a more massive dose of caffeine: almost double the exciting substance compared to Arabica. Also known by botanists as *Coffea bukobensis*, the Robusta quality is the second most popular in the world after the Arabica and accounts for about 25% of the world market.

Who chooses it, prefers it for the more intense and slightly more bitter taste. Robusta based coffees are more "angular", astringent, less fragrant and more bitter, and with a brown cream tending to gray. Moreover, its name also refers to the resistance of the plant to the warm climate and to the parasites, which for example in the nineteenth century decimated hectares of Arabica crops forcing local populations to cultivate other species.

Widespread in the tropical lowlands, it grows at altitudes ranging from 200 to 600 meters.

Like the Arabica plant, it has branched that bend in the shape of an umbrella, down, with a continuous flowering during the year. Robusta also grows in the plains; discovered in the Congo has been appreciated since the beginning for the abundance of the production compared to the lower cost of planting and for the resistance to diseases and to the not exactly optimal conditions.

The bean of Robusta is rounder, with a very straight groove, pale green with gray shades: the caffeine content is greater since it varies from 1.6% to 3.2%. Roasting gives off much more fragrance than Arabica. Some varieties, obtained from crosses of Robusta, are widespread in India, West Africa, Uganda, and Indonesia.



Figure 1.6., Robusta coffee beans, source: <https://alimentazione360.it/prodotti-della-natura/varieti-di-caffe-tutte-le-tipologie-in-commercio>

1.2.3. Other minor varieties

Excelsa

It is a popular variety of coffee that is often confused with Liberica beans (of which it has recently been reclassified as a variant), in addition it has a dose of caffeine that varies from 1,7% to 3,5%. Scientifically recognized as *Coffea Dewerti*, Excelsa contributes to 5% of coffee production worldwide. The grain, smaller than the Liberica, grows on large and vigorous trees at medium altitudes. Excelsa is very resistant to drought and pest attacks.

Although it is taxonomically similar to the grain of Liberica, the taste is very different, indeed Excelsa beans have a characteristic acid, fruity and dark aromatic profile. It particularly stimulates the middle and back palate, and its strong characteristics make it a coffee for a few. Not everyone appreciates the taste so intense and prefer the sweet taste of Arabica or Liberica.

Liberica

The production of Liberica constitutes about 3% of the world market of coffee beans and its dose of caffeine varies between 1,7% and 3,5%. Originating in West and Central Africa. The species is now cultivated in Africa, South America and Southeast Asia and is currently an important crop in the Philippines because it grows better in jungle environments. They are huge berries in the shape of a large almond with the characteristic curvature on one side that grow on trees of considerable size. Of this plant are also used flowers that, once dried, enjoy a particular appreciation at the Japanese market for tasting infusions with an intense aroma of coffee. Today it is particularly used by roasters in percentages ranging from 5 to 10%, to accentuate the flavors. Liberica is a kind of coffee with a completely different flavor than Arabica and Robusta. With its characteristic smoky taste and dark chocolate notes and its distinct floral and fruity taste, Liberica coffee is not suitable for all palates.

Main differences between Arabica and Robusta coffee

Those who love coffee (for its invigorating properties and its intense taste) will certainly not be able to ignore the differences between Arabica and robusta: Most fans certainly know this classification that allows you to clearly distinguish the type and recognize the taste in the cup, but not everyone knows what we are talking about.

Arabica and robusta are two different types of coffee: these names refer to the different types of beans used to produce the blends that are commonly used on the market.

In the common coffee served at the bar it's difficult to trace the type of mixture with precision: some use Arabica and robust together others prefer either one or the other, only the most experienced can recognize the type used according to the taste of coffee.

The main differences between Arabica and Robusta coffee are about shape, origin and above all taste and price.

Arabica is the most widely used coffee blend and covers 70% of the coffee produced worldwide, comes from South and Central America and some parts of Africa such as Kenya and Ethiopia.

The robusta is cultivated in West Africa (Ivory Coast for example) and in the Far East (Vietnam and Indonesia).

Arabica is a mixture that needs a lot of water and high altitudes, while robusta can be grown at low altitude.

The differences between Arabica and robust coffee are perceptible by the appearance of the beans, they are very different from each other: elongated and oval the first, color tending to green and rounded the second with a more or less straight groove and a darker color. Obviously, the consumer cannot perceive these differences, while he can notice what distinguishes arabica coffee and robust taste, here's how to recognize them.

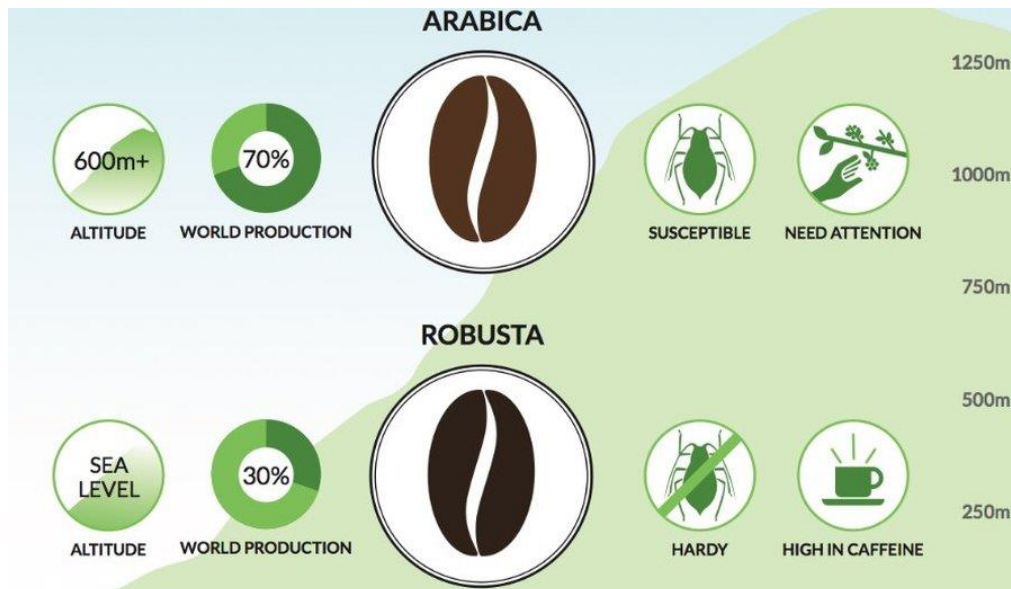


Figure 1.7., Source: <https://alimentazione360.it/prodotti-della-natura/differenze-tra-caffe-arabica-e-robusta>

The differences between Arabica coffee and robusta are mainly perceived in the taste, especially because of the level of caffeine, even higher than double in the case of robusta compared to the Arabica blend.

From this you can guess how not everyone will love both blends: those who prefer the strong taste and the coffee with a strong taste will opt without any doubt on the robust blend while those who have problems with insomnia, high blood pressure or simply prefer a more delicate coffee will love instead to taste the Arabica.

If we analyze in detail the taste differences between Arabica and Robusta coffee not only concern the level of caffeine but also the organoleptic characteristics: Arabica coffee is less bitter, almost acidic and has aromatic notes, the robust blend instead makes the coffee full-bodied and much more bitter, with a vigorous taste.

The coffee prepared with robusta will therefore be creamier while the espresso made with Arabica will have a sweeter and more valuable taste, this also depends on the greater presence of sugars and the lower amount of caffeine that results in a less bitter taste. The cream obtained with Arabica is a light color tending to reddish, while that of robust appears denser and a much darker color.



Figure 1.8., Source: <https://alimentazione360.it/prodotti-della-natura/differenze-tra-caffe-arabica-e-robusta>

Not only: smelling a cup of robust will be possible to perceive notes of chocolate and roasted hazelnuts, while the Arabica blend coffee will also stand out for its color, black with shades tending to reddish.

We cannot define which is the best of the two: in common opinion we tend to consider the Arabica blend the most valuable, but it does not mean that it is of superior quality than robust.

From a health point of view, it is believed that the best can be Arabica because of the less advanced roasting process that allows it to produce fewer toxic residues for the body.

In the roasting processes in fact are produced chemical compounds resulting from the carbonization of cellulose and are considered carcinogenic, but fortunately coffee is rich in antioxidants therefore the toxic action of these slags is easily neutralized.

To meet all tastes the coffee blends, combine Arabica and robust often allowing you to get a thick and compact cream, only 20% is made of robust.

The differences between Arabica and Robusta coffee, however, do not concern only their characteristics, indeed, according to be distinguished by the price.

2. Coffee production process: from seed to cup

The series of processes required to turn a raw material into a finished good that can be sold to customers is known as the supply chain. The procedure by which coffee beans are transformed into the drink we all consume will be examined in the following chapter.

There are three primary phases in the production of coffee:

- Agricultural processes that involve growing and harvesting coffee.
- Treatment, processing, and production stages that include roasting and grinding coffee up to the green coffee stage.
- Selling, consuming, and getting rid of.

The first phase in the lengthy coffee bean supply chain is the cultivation of the beans, which is carried out by farmers who raise the coffee plants and collect the beans.

Following cultivation, coffee cherries are subjected to dry/wet processing to produce green coffee. Then, several techniques are used in the refining process, which includes polishing, sorting, washing, and drying. The roasting process comes next. Coffee is prepared for retail sale and consumption after roasting and packing.

Water and energy are the two environmental factors in the coffee lifecycle that cause the most worry because they are needed to consume coffee. Consumers finally dispose of coffee grounds, filters, and packaging.

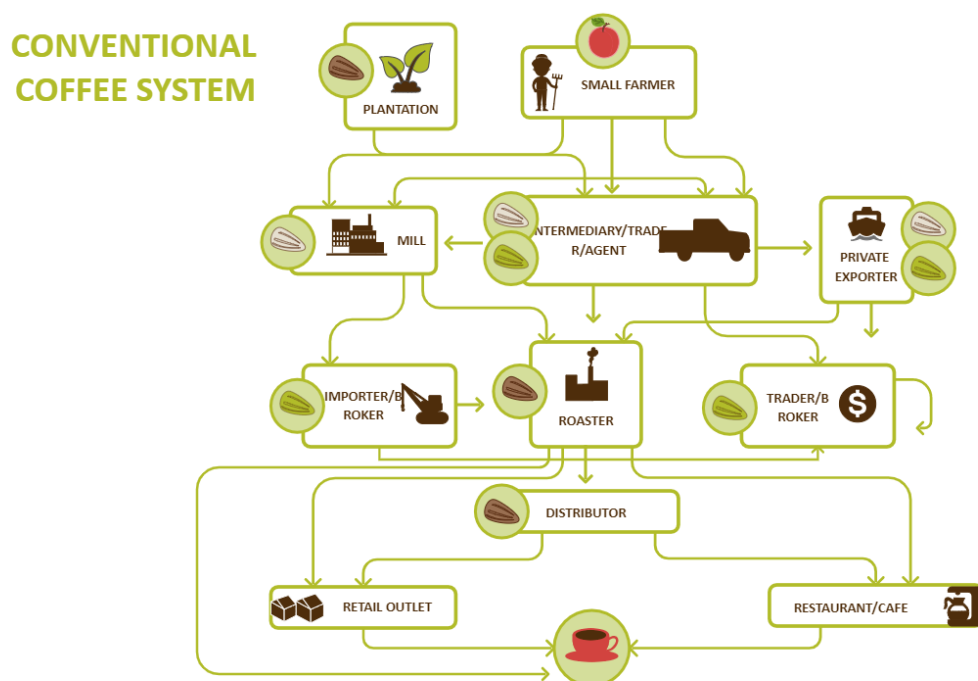


Figure 2.1: Conventional coffee system, source: <https://www.edrawmax.com/templates/1015753/>

2.1. Planting

Coffee beans are seeds. They can only be used to brew the simple zip after they have been dried, roasted, and ground. Unprocessed coffee seeds can sprout and develop into coffee plants if they are planted. Typically, the seeds are placed in sizable, shady beds. The immature seedlings are transferred to individual pots with specially designed soils after sprouting and given a few days to continue growing, while the potted seedlings are watered frequently and kept out of the hot sun until they are strong enough to be moved to their permanent growing location.

The optimal course of action of this supply chain stage is planting during the wet season, to ensure that the soil will remain moist until the roots become firmly established.

2.2. Harvesting

Newly planted coffee bushes typically take 3–4 years to begin bearing fruit, depending on the varietal. The fruit, sometimes known as cherries, changes from green to bright or dark red depending on how ripe it is; immature cherries remain green in color. Lower altitudes and hotter temperatures hasten the ripening of cherries. People can manually harvest coffee to guarantee that only the ripe cherries are taken. Hand-picking cherry requires thorough inspection for maturity, which is a difficult and labor-intensive operation that, unsurprisingly, requires payment for labor. Cherries mature at various times, and it can take up to three pickings to clean out an entire farm.

Cherries are machine harvested in nations like Brazil where the terrain is level and coffee is grown on substantial estates.

Coffee is always collected using one of the following two techniques, whether by humans or machines:

- Selective picking: The green cherries are left to ripen while the red ones are harvested. The picking process is done every 10 days. Since this method requires a lot of labor, it is mostly employed to harvest premium Arabica coffee.
- Strip picking: using a machine or by hand, removes the cherries from the branch.

In most areas, there is just one significant harvest season every year. There are two harvesting seasons, one for the primary crop and one for the secondary crop, in a number of nations, including Kenya and Colombia.

The best-tasting coffee is picked in the middle of the season; coffee gathered at the start and end of the season has a poorly developed flavor.

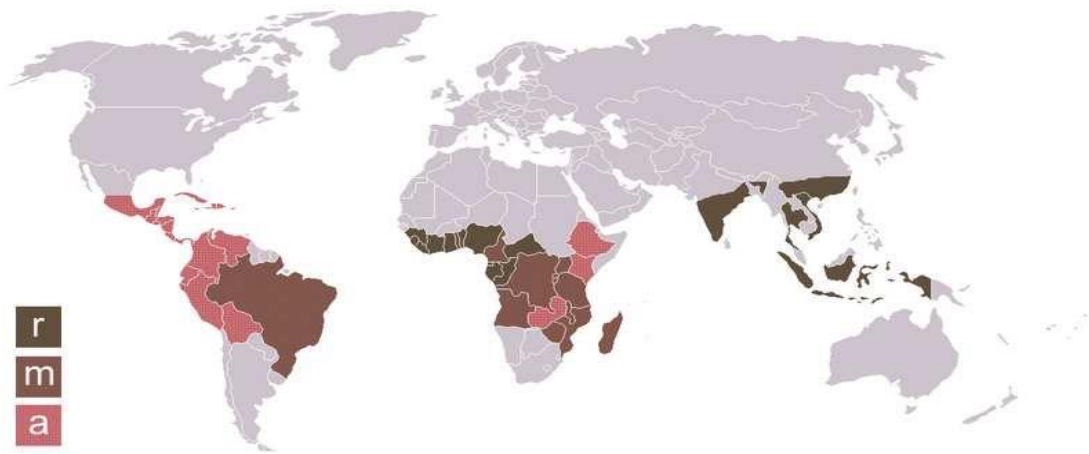


Figure 2.2., geographic distribution of coffee cultivation, source: www.altromercato.it, Consorzio Ctm altromercato soc. coop

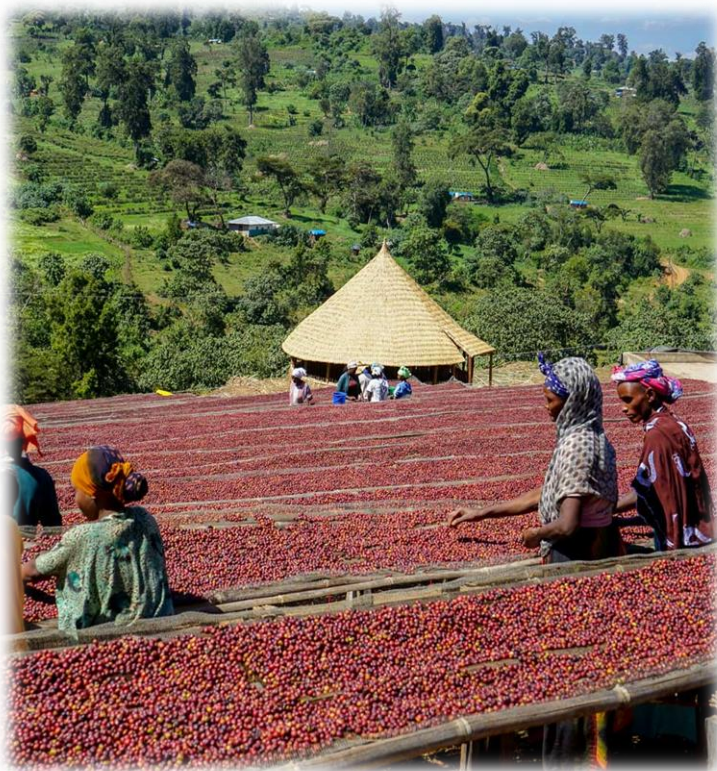
2.3. Cherry processing

Cherry processing begins as soon as they are harvested to prevent spoiling. Depending on the area and the resources available, it is used one of the following approaches.

The dry method

Figure 2.3, source: <https://www.cafeimports.com/north-america/blog/natural-process/>

This traditional method of preparing cherries is still used in areas with a lack of water. This approach is also referred to as "natural" or "unwashed" processing. Small-scale farm owners typically employ the dry approach. The fresh cherries are dispersed over a sizable area and allowed to dry for 15 to 20 days in the sun. To ensure air circulation around the berries, they are typically placed on drying beds that are only slightly elevated from the ground. To prevent fermentation and make sure they dry uniformly, they are frequently turned and raked throughout the day. Then, to prevent them from absorbing moisture, the berries are covered at night. Each picking run may require several weeks of drying time until selected cherries have a moisture level of less than 11%, mostly depending on the weather conditions. The outer layer will have dried out, become black, and become brittle at this point. The outer skin may be removed rather easily after drying.



The wet method

Figure 2.4, source: <https://www.colombiacoffeeroasters.co.uk/blogs/news/coffee-fermentation>

This technique is a very recent one for de-skinning coffee cherries. Because water is used to both transport the coffee fruit through the process and to remove the beans, it is known as a "wet" procedure. Like the dry process, the wet approach entails washing the cherry and discarding those that are overripe or underripe. The beans aren't harmed during the process of removing the peel from the cherries using a pulping machine. The comparatively hard nature of coffee beans makes this feasible. The berries are not ripe enough if some of them still have the pulp on them.

These beans are manually sorted and used to make coffee that is of poorer grade. Coffee pulping produces mucilage, which is subsequently placed in huge tanks containing enzymes to aid in the removal of the gooey material. To guarantee that all of the mucilage is dissolved, beans are placed in big tanks and stirred often. It takes the whole thing around 24 hours. To guarantee that the beans retain the flavor that was created previous to this processing, it is crucial to remove all of the mucilage. The beans are thoroughly cleaned once it has dissolved to get rid of any remaining stickiness. The unadorned coffee beans are then let to dry for one or two days in the sun. It is important to remember that drying may be automated. The coffee beans now depart the processing room and are graded according to their quality.



2.4. Coffee milling process

The dried coffee beans are treated as follows before being sold: Hulling entails removing the endocarp, mesocarp, and exocarp of parchment coffee. Polishing: Some millers omit the optional step of coffee polishing. It entails getting rid of any sliver skin that could have gotten through the hulling process. Beans that have been polished are thought to be of greater quality than those that have not.

However, there aren't many differences in terms of content. Grading: Following sorting, the beans are rated according to their weight and size. Human hands are employed to remove any faulty beans after the polished beans have been examined for color irregularities and other faults. The laborious operation might take many hours.

A more effective technique is pneumatic sorting, which divides the light from the heavy beans using an air jet. The size of the beans is determined by passing them through a succession of screens with holes that only permit beans of a particular size to pass through. The measurement is done on a scale from one to 10. Only the best beans are packed for sale in high-end marketplaces at the conclusion of the milling process. In certain nations, the inferior beans are accepted for processing and marketed as subpar coffee rather than being thrown.

2.5. Coffee tasting process

To further assess and characterize the taste and quality of the packaged coffee, it is sampled several times. The procedure, known as capping, is carried out in a particular chamber created to facilitate it. People can identify the origin of the coffee by tasting it, thus identifying the flavor of the coffee by gurgling it to the back of your tongue, reminding an oil tasting.

Among the words tasters may use are:

- **Acidity:** Acidity is a term used to describe how acidic coffee is. Coffee with a high acidity level is considered to be of higher quality. Low-acid coffee is typically referred to as a soar.
- **Body:** Other phrases used to describe the coffee include the body and aftertaste. The term "body" describes how coffee tastes in the tongue; it might be hefty or incredibly light. This trait is rather stable and independent of personal preferences.

2.6. Coffee roasting

Figure 2.5, source: <https://www.sentryair.com/blog/industry-applications/chemical-solvents/diacetyl-hazards-coffee-roasting-industry/>

Green coffee beans are unroasted coffee beans that have all the flavors preserved in them. The goal of roasting is to turn green coffee beans into the flavorful brown beans you can buy in your favorite shops. The green coffee beans are continually rotated during roasting, which takes place at temperatures of about 550°F, to prevent burning. Green beans are initially dried until they become yellow and begin to smell roasted. When the beans reach 400°F internally, a process known as "first crack" occurs, causing the beans to double in size and begin to become light brown. The color then turns to medium brown as the temperature rises more, and a fragrant oil (caffeol) begins to emerge.



Pyrolysis, or the core of roasting, is the process of roasting. Every time you sip this enchanted beverage, you can taste and smell its scent. The roasting process can be stopped or continued to get a deeper roast at this point as the coffee is light or medium roasted. The 'second crack' occurs and the second pyrolysis starts when beans achieve an internal temperature of around 440°F after the first fracture and the first pyrolysis. The color of the beans changes from medium to dark brown, and an oily sheen is seen. The beans are typically drenched in copious amounts of water when roasting is finished to rapidly chill them off.

Years of education and practice are necessary to become a skilled roaster. A competent roaster must be knowledgeable about his beans and tools. It takes years of practice to develop the ability to correctly forecast the internal temperature of individual beans, which is a skill required for roasting.

There are three distinct roasts: light, medium, and dark, and within each of these roasts, there are several levels:

- Light: There is no oil produced on the surface of the coffee beans during light roasting. The color of beans is light to somewhat light brown.
- Medium: During the first crack, medium roast beans get a medium light to medium brown color.
- Dark: The beans from the dark roasts are black, roasted, and oily on the outside. The color ranges from fairly dark brown to almost black depending on the roasting temperature.

Roasting occurs as near to the customer as is practical. This is because of beans quickly start to lose their excellent quality when they are roasted. Another common option is doing the roasting at home. Some cafes often serve coffee that has been roasted on the premises. One will need some instruction, nevertheless, to become a skilled home roaster. It can be easily mastered, and it is not particularly expensive.

2.7. Coffee grinding

The most flavorful cup of coffee is the main objective of a grind. How fine or coarse the coffee should be ground depends on the type of coffee machine being used. The manner of grinding affects how quickly the flavors of the coffee may be released. Because of this, espresso coffee is ground very finely. Contrarily, coffee made using filter coffee machines has a coarser grind (coarsely ground).

2.8. Degassing

After roasting, the coffee continues to degas, releasing carbon dioxide and aromatic chemicals into the air as a result of the many physical and chemical changes it goes through. In order to prevent swelling and the subsequent loss of package integrity if it is moved immediately to the packing, a one-way valve is put in the special packages that allows the coffee to continue degassing.

If it is meant for grinding, it is instead put in specialized degassing cells where the release of carbon dioxide and other gases is kept going by adding nitrogen, which functions as an inert gas and keeps the coffee from coming into contact with oxygen and oxidizing. For grinding coffee, this procedure is crucial because the faster gas is released into the atmosphere, the smaller the powder's particle size must be. For coffee beans, which have a significantly longer degassing duration and are thus degassed inside the packaging, it is not adhered to.

This procedure takes a few hours if the coffee is for vacuum packing. On the other hand, because of the constrained headspace in capsules, the degassing procedure may take longer than 24 hours.

2.9. Packaging

Packaging for coffee is crucial since any exposure to air might cause the coffee to become lumpy. This is especially true for ground coffee, which if exposed to air quickly loses its flavor. Because of this, coffee is typically packaged in airtight canisters, which should be securely resealed when not in use.



Packaging with a non-hermetic seal:

Coffee is sealed in bags by piercing one or two tiny holes in the seal (at a covert location) that permit the gases emitted by the beans to escape but also enable air to enter the container. After roasting, the packaged coffee must be consumed within one month. All firms who sell the goods swiftly can use it as a solution.

Figure 2.6., source: <https://blog.bluebottlecoffee.com/posts/how-to-store-coffee>

Vacuum packaging:

the coffee is packed after the air is removed, and the container has a one-way valve that allows gases to escape but keeps outside air out. This method, which is frequently used for coffee bean packing, enables the product to be preserved at its best for around six months. High vacuum packing is used to package ground coffee because it removes the air from the container, sucking up some of the volatile aromatic compounds and carbon dioxide that are emitted from the beans after roasting (to avoid breakage). Even though degassing depletes the coffee's fragrance combination, this can preserve it for around three months.



Figure 2.7, source: https://www.christmastopgift.com/?category_id=112800

Pressurized packaging:

The coffee is placed in extremely durable, waterproof metal containers, which create a vacuum and low pressure inert gases (such as nitrogen or carbon dioxide). Any extra pressure brought on by the gases emitted by the coffee is reduced by a one-way safety valve. With this more expensive process, volatile aromas may be preserved better and for longer periods of time (even over three years). Figure 2.8, source: <https://www.fsl.ie/illy-coffee/>



There are two types of single-serving coffee packaging: **Pods and capsules**.

Figure 2.9, source: https://www.123rf.com/photo_68157195_coffee-pods-on-coffee-beans-background.html



The first are pre-packaged rice paper filters or ones manufactured from cellulose-based paper wrappers that include some ground and pressed coffee. The casing's porousness prevents the pods from being hermetically sealed. When the coffee and hot water are both passed through the filter, the coffee is dispensed into the cup. On the other hand, the coffee capsule is a hard, cylindrical container that is often composed of plastic or metal. The fact that it is sealed allows to properly keep the scent that is characteristic of coffee and makes it resistant to heat and humidity.

Both pods and capsules have the benefit of being far more convenient to use when preparing coffee than the traditional

Moka pot and less expensive than an espresso purchased from a bar, making them the best options for low consumption situations like those that occur in the home. Additionally, because they are single servings that have already been packed, they don't interfere with the dose of ground coffee. Speaking about sustainable packaging has been more popular in recent years as awareness of environmental problems and food safety has increased.

Regarding the coffee industry as well, which has lately experienced a rise in pod sales and consumption. In actuality, a pod that satisfies the E.S.E. standard, which calls for a diameter between 43.5 and 44.5 mm and a thickness that ranges from 9.1 to 10.6 mm, is considered to be of standard size. Any Espresso machine may use the pods in E.S.E. (which are single pre-packaged dosages of 7 grams of ground coffee).

As a result, coffee pod packaging is unquestionably more environmentally friendly than that of capsules. Additionally, they are healthier since it is known that at high temperatures, the metal and plastic used to make the capsules produce furan.

It might be challenging to separate the components of items manufactured of aluminum or plastic packaging or a combination of these materials. This complicates the product disposal procedure. In reality, the used capsules would often be thrown away intact and wind up in landfills and incinerators.

Figure 2.10, source: <https://www.dw.com/en/germans-support-deposit-system-for-coffee-capsules/a-19164422>

Nevertheless, the market still favors promoting capsules over pods. Due to the lack of a standard for capsules, consumers must also buy the equipment associated with them, at least until versions that are compatible are researched, but in any event, this equipment will not be compatible with the pods.

Research found that every year, over 10 billion coffee capsules are sold worldwide, resulting in 120,000 tons of trash, including roughly 70,000 tons in only Europe. For this reason, the EU-funded "life-pla4coffee" initiative has begun. Its goal is to replace coffee capsules made of Pe, Pet, or aluminum with biodegradable pods.



Food safety issues relate to those of environmental sustainability. And it turns out that the packaging is a crucial component for the proper and long-term preservation of the coffee.³

2.10. Coffee market channels

All sales channels are used for distribution, including retail, foodservice, office coffee service (OCS), vending, and online.

2.10.1. Retail

When we use the term "retail," we mean the channel intended for domestic consumption. For espresso, mocha, and filter preparations, the offer is tailored for each nation and includes both coffee beans and ground coffee. It also contains pods, instant coffee, ready-to-drink, and capsules for the most widely used home systems worldwide.

2.10.2. Ho.Re.Ca

The hotel sector is referred to by the trade name "horeca." It stands for "hotellerie, restaurant, and café." Those who work in the food and beverage industry represent the Horeca channel. The offer for this channel comprises specialist equipment and administration-specific service supplies. The offer is completed with complimentary goods such chocolate drinks, ginseng, barley, tea, infusions, and slushes in addition to coffee.

2.10.3. O.C.S. & Vending

The abbreviation O.C.S. stands for Office Coffee Service. In this scenario, the offer comprises a variety of coffee capsules and other beverages, allowing all customers to get their daily favorite product, as well as a selection of design machines for manual operation that are appropriate for every setting.

Contrarily, vending describes automatic distribution in public areas including airports, trains, colleges, industries, big businesses, and hospitals. It is possible to improve the qualities of a broad variety of particular mixes for this channel by using "free standing" and "tabletop" automated equipment. There is also a selection of specialty coffee beans with unique qualities to round out the offering. There are already automated machines that employ "eco Cups," entirely biodegradable and recyclable paper cups, which have a 63% lower environmental effect than machines that use plastic cups.

³ <https://www.newfoodmagazine.com/article/28006/process-coffee-production-seed-cup/>

2.10.4. Online channel

It's important to consider the online coffee sales market. This industry had a notable uptick during the lockdown, as customer behavior had to adjust owing to the situation. In reality, a growing number of individuals are buying coffee online, which for many people is a true vital hobby. Coffee sales between January and April 2020 soared to 11.4 million euros, which is 84% higher than in the first quarter of the previous year and shows a channel that has been gradually expanding for years (+ 50% in value alone in 2019). The fact that the coffee industry is still expanding even after the epidemic illustrates how deeply ingrained coffee is in our culture and society.

3. The coffee market

The differences between Arabica and Robusta coffee mainly concern the place of origin and cultivation: climatic and geographical conditions affect their organoleptic characteristics, the difference in taste and appearance.

All these factors have a significant impact on the price difference of the two mixtures: it has already been highlighted how the Arabica blend is considered more valuable, either for its delicate taste, or for the persistence on the palate, and the price is higher than the robust.

Also, the differences in terms of costs are comparable to the cultivation areas: for example, referring to the Arabian mixture we can say that it needs high altitude, it has a much lower degree of adaptation than the robust mixture.

The latter in fact lends itself very well to different types of soil and climatic conditions, thus it is a less expensive cultivation, and this obviously affects the final product.

The prices of individual blends can obviously vary from one type to another, for example Arabica can cost from very few euros to hundreds per kg depending on the area of origin.

3.1. Green coffee production countries

After the spread of coffee in South America, Brazil was the world's largest producer, the story is intertwined with intrigues bordering on espionage.

It all began during a diplomatic meeting between the Brazilian lieutenant Francisco de Melo Palheta and the governor of Cayenne, Claude de Guillonet.

During lunch coffee and liqueurs are served and Palheta does not hesitate to ask for some coffee plants to sow in his garden. But he gets a clean pass. After lunch, the lieutenant manages to charm the governor's wife who during a walk takes some fruits of the coffee plant and puts them in the Brazilian's jacket. In the following decades the cultivations extended to the State of Paraná. The coffee crops started in 1727 were then moved first to Rio de Janeiro and finally, during the first half of the nineteenth century, to the states of São Paulo and Minas Gerais, which within a few years became the most important economic resource of the country.⁴

In 2000, 2% of the owners owned 60% of the land in Brazil, in Paraguay 1% controlled 80% of the arable land, while small producers owned only 5% of the land in Latin America. In Africa, however, large production is less present and coffee production is generally divided between small producers. The structural adjustment programs of the 1980s, initiated by the European Monetary Fund and the World Bank, have led to the removal of state power over economic activities in Africa, thus resulting in privatization processes, liberalization, and entry of foreign capital, mainly European. The Marketing Boards have been dismantled, and public bodies designed to ensure small coffee producers a minimum price on sales.

Producer countries consume only a minimum amount of coffee and 75% of the produced quantity is exported.

⁴ <https://www.focus.it/cultura/storia/il-vino-darabia>

Today at the top of the list of total coffee consumption there is however not Arabia, neither Turkey nor de Clieu's France, but the United States (16% of the total). Followed by the largest producer country, Brazil (11%). But the record per capita consumption, surprisingly, goes to Northern Europe: Finland in the lead, followed by Denmark and Sweden.

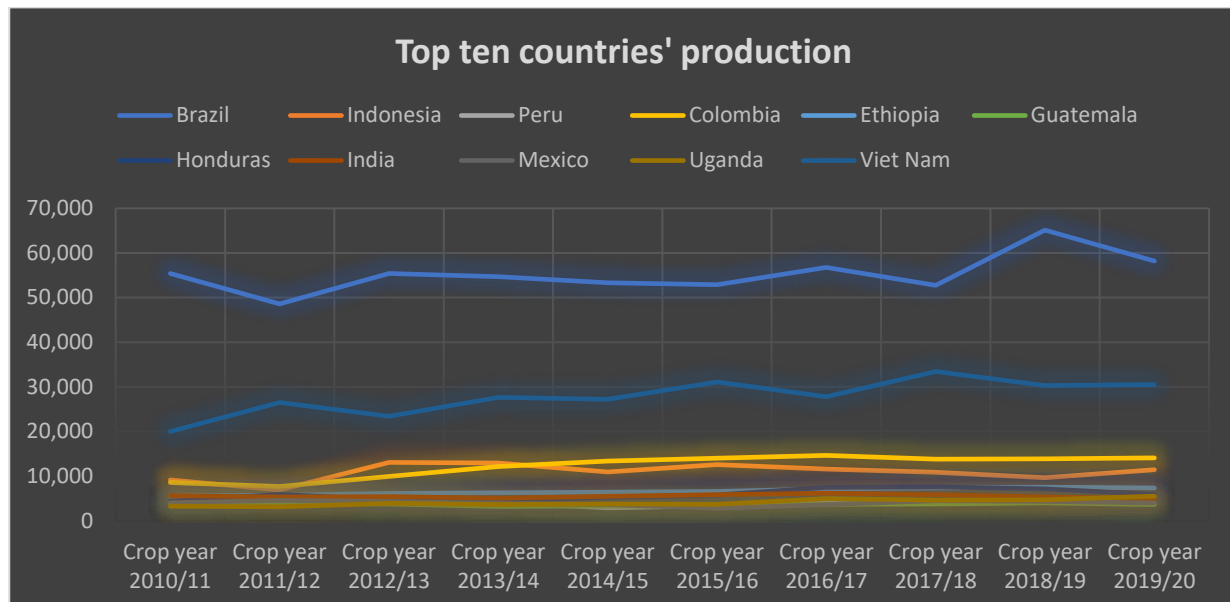


Table 3.1, source: Data by ICO databases in thousands 60kg bags.

3.2. Green coffee exporting countries

Coffee is the second product marketed worldwide, after oil, with a market volume of about 15 billion dollars.

It is the only real source of income for more than twenty million farmers in the South of the world. A large majority of these people, and indirectly their families, are subject to exploitation by local intermediaries and are almost totally dependent on strong fluctuations in the price of coffee and financial speculation on the major European and US stock exchanges.

The export of coffee is a disjointed, rather than fluid, process. As we can see from the supply chain analysis, coffee is moved from the plantations of the producing nations to a "central market" where it is bought by a local exporter who will then resell it to an international trader and take care of the distribution to the roasters who will prepare the raw material for the consumer.

Coffee producers are concentrated in the South of the world, while consumers almost exclusively in the North.

In most nations, green coffee accounts for 95% of exports, whereas only a small portion of coffee is exported in other forms, such as soluble or roasted. Except for Brazil, which benefits from a considerable domestic demand, most emerging nations have not yet developed soluble coffee industries, despite the fact that consumption and demand for it have grown significantly in recent years. The production of commodities dominates the economies of many emerging nations. Among them, coffee frequently holds the top spot, as seen in the case of African nations where the share of coffee exports in total exports surpasses 60% and several Central American nations where the share is close to 26%⁵. Brazil has instead greatly decreased its reliance on the export of this good since the 1970s via the diversification of its exports and the growth of its industry, lowering the export of coffee from 20% to less than 3% of overall exports.

⁵ 4 FITTER, R., KAPLINSKY, R., 2001. Who gains from product rents as the coffee market becomes more differentiated? a value chain analysis, University of Sussex.

Country	Production (in 60 kg bags)	Export (in 60 kg bags)	% of Export
Brazil	58.211	40.511	70%
Vietnam	30.487	26.537	87%
Colombia	14.100	12.639	90%
Indonesia	11.433	6.627	58%
Ethiopia	7.343	3.812	52%
Honduras	5.931	5.506	93%
Mexico	3.985	2.955	74%
Peru	3.836	3.588	94%
Uganda	5.509	5.355	97%
Guatemala	3.606	3.213	89%

Table 3.2, source: Data by ICO databases in thousands 60kg bags, year 2020.

According to the statistics reported on the website of the ICO (International Coffee Organization), for the period 2010-2020, the largest producers-exporters of coffee are in order of quantities exported, Brazil, Vietnam, Colombia, Indonesia. Guatemala, Peru, India, Honduras, Uganda, Ethiopia, Mexico follows, with variable indices, depending on the year.

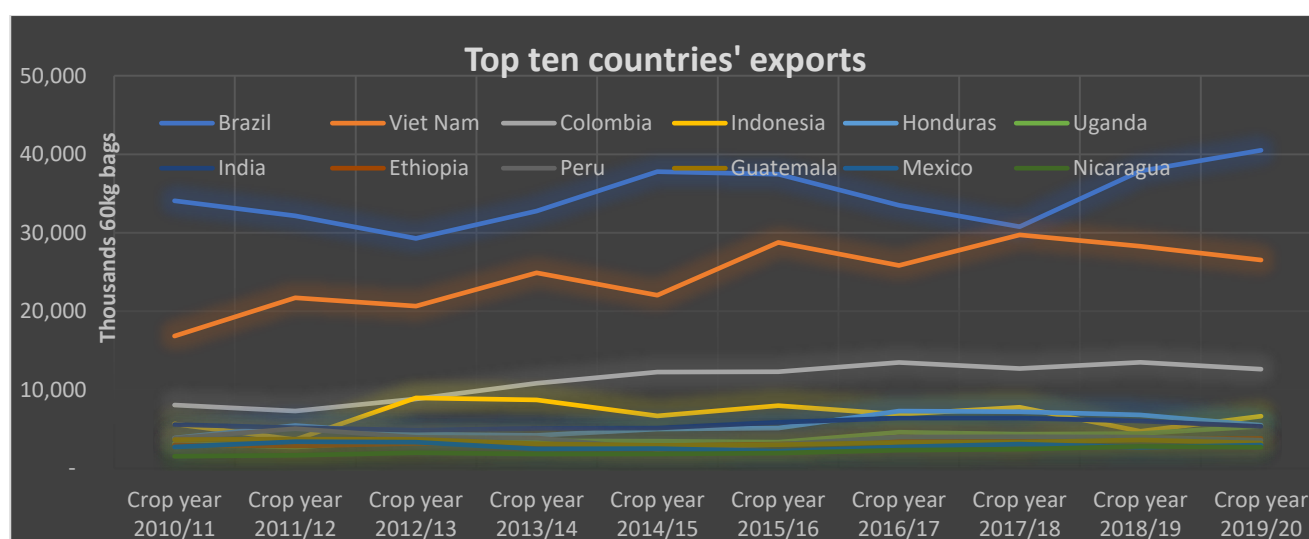


Table 3.3, source: Data by ICO databases in thousands 60kg bags.

3.3. Green coffee importing countries

The biggest importers of coffee are Europe (mainly Germany, France, and Italy), the USA and Japan. Europe imports mainly from Africa, while the United States mainly from Central and South America.

Since the 1990s, imports have decreased due to stagnation in coffee consumption, rising prices and the spread, mainly in Northern Europe, of new habits related to lighter drinks with a low caffeine content. Also, the growing migratory flows of Turks and Maghrebis to the USA and Europe

or Central and South American especially in the United States is contributing to a change in habits related to the use of coffee: consumption is increasing, and the quality of the raw material required is changing.

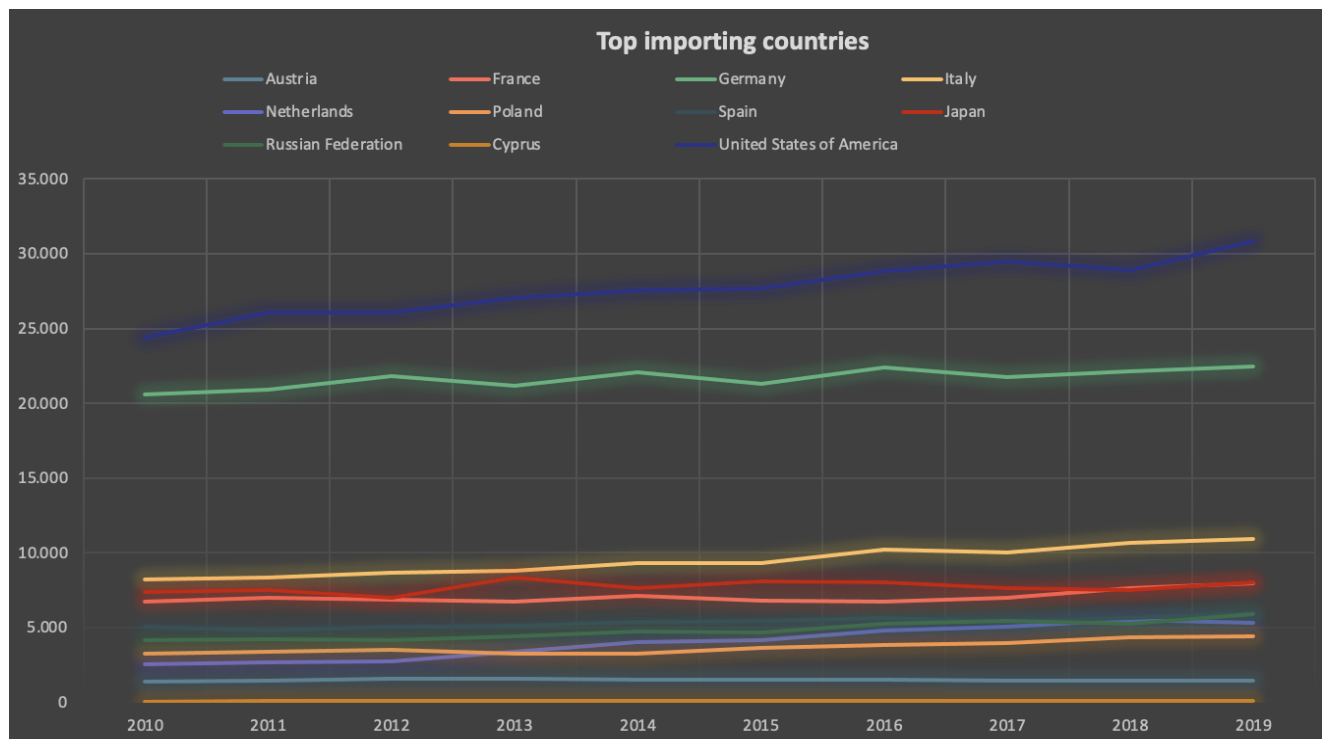


Table 3.4, source: Data by ICO databases in thousands 60kg bags.

3.4. Pricing mechanism

Which actors play a role within the pricing mechanism? And what dynamics are implemented?

The coffee market remained relatively stable until 1989. Since 1962 the coffee-producing countries had agreed to stabilize the price of coffee and determine export quotas. The emergence of new producers outside the ICO (International Coffee Organization) complicated the price stabilization system (as these countries exported coffee at lower prices than those established by the ICO) and made the export quota-based regulatory system more complicated. Attempts to reach agreements between ICO and non-member countries failed in July 1989. From that moment on, people began to talk about the free coffee market. The liberalization of the market after 1989 led to the transfer of all stocks to the market, causing a fall in prices to the levels of the 1930s.

In this world of continuous fluctuations, a fundamental role is played by financial speculators: through financial engineering instruments based on forward contracts, known as *futures*, coffee is bought by large western importing companies even before it is harvested, setting a deadline for delivery. The coffee is paid almost entirely at the time of delivery, so if the price increases between the purchase and delivery, the buyer can resell the coffee even before having physically received it.

Over the years, these futures contracts have been used to build complex and very risky financial instruments, which move large amounts of money not linked to any real flow of goods during the contract period. Thus, coffee becomes the object of great financial speculation that raises or lowers its price through mechanisms that disregard the real trend of production.

Green coffee producers do not participate in this risky game. They have no bargaining power in determining the price. They suffer heavily from the negative effects of falling prices, but do not benefit from their increase, because of the many intermediaries, called *Coyotes*, which buy coffee from small producers at very low prices to sell to large coffee multinationals.

Selling coffee to these players is often the only way to survive for many small farmers who depend totally on the cultivation of coffee and have no other access to the market.

3.5. Coffee economics

As the underlying asset of futures contracts, unroasted (or "green") coffee beans are traded as a commodity on numerous exchange platforms. The exchanges where it is traded include the New York Board of Trade, the New York Mercantile Exchange, the New York Intercontinental Exchange, the Brazilian Mercantile and Futures Exchange, the Kansai Commodities Exchange, the Tokyo Grain Exchange, the Borsa Italiana, the National Commodities and Derivatives Exchange, the Singapore Commodity Exchange, the Multi Commodity Exchange, and the London International Financial Futures and Options Exchange. These marketplaces do not exchange all of the coffee. Starbucks, as an illustration, purchases coffee through multi-year private contracts and pays a premium for it.

As mentioned above, Brazil is the world's largest exporter of coffee. The Arabica type accounts for the majority of output, and because it is more expensive than the other due to greater cultivation costs, the country must compete with other nations that mostly trade the less expensive Robusta grade. The climate during coffee growing, followed by the production and roasting procedures, are the primary determinants of coffee pricing. In reality, a quicker roasting procedure produces a coffee that is more acidic and harsh and costs less, whereas a longer roasting process produces a coffee that has a more rounded scent and flavor and costs more.

Speaking of the weather, heavy downpours or protracted dry spells will raise coffee costs, whilst "ideal" weather will cause them to drop. (2021 Avatrade.it)

The cost of distribution, geopolitics, and health concerns are among variables that affect coffee prices. Coffee must be transported, and as fuel costs are directly correlated with the cost of transportation, the price will be affected and rise. The political climate of the nation where coffee is grown is also crucial to consider. The likelihood that the supply chain may be disrupted grows with more unstable it is, and if this occurs, prices would naturally rise. In the end, people's concerns about the health problems produced by coffee impact demand, which in turn influences the price. A significant level of price volatility is the ultimate outcome. (2019 Killian)

Figure 3.5 depicts the price trend for Arabica coffee from 1969 to 2021, and Figure 3.6 depicts the price of coffee futures from 1979 to 2021.



figure 3.5, arabica coffee price trend from 1969 to 25/10/2021. source: [macrotrends.net](https://www.macrotrends.net)

Figure 3.5 shows all coffee price swings. The price is never constant and never exceeds 3.5\$, although in 2001 it hit its lowest price ever, which was practically 0\$. Although the price has dropped from a high of 2.84 dollars in 2011 to just 1.34 dollars in 2019, Colombian Mild Arabicas still seem to be the most costly coffee type per pound. For all the reasons already explored, Arabica coffee is more expensive than Robusta coffee, as was previously explained.

US Coffee C Futures ▲ 204.20 +1.65 (+0.81%)



figure 3.6, coffee futures price trend from 1/12/1979 to 31/12/2021. source: [investing.com](https://www.investing.com)

3.6. Coffee in the Fair Trade

Fair Trade has been defined as:

"a trade partnership based on dialogue, transparency and respect, aiming at greater fairness in international trade. It contributes to sustainable development by providing better trading conditions for disadvantaged producers and workers, particularly in the South, and by guaranteeing their rights. Fair Trade organizations, with consumer support, are actively engaged in producer support, outreach and campaigns to change the rules and practices of conventional international trade⁶."

These principles are the basis of all actions and internal relations within Fair Trade, articulated according to the different production contexts and different products.

Coffee has always been one of the most important products for fair trade. In 1973 *Fair Trade Organisatie* of the Netherlands imported for the first-time fair coffee from small producers' cooperatives in Guatemala.⁷

Today, fair coffee has become a concept and more and more people are choosing to drink fair coffee. The criteria established by fair trade coffee are:

- Direct purchase: coffee always comes directly from small farmers' organizations to avoid speculative intermediation.
- Fair price: a bonus of \$ 5 cents/pound (454 gr.) above the price of the world market and a guaranteed minimum price (\$ 1.26 for Arabica coffee). In this way, the producer's remuneration is released from the speculative financial logic of futures contracts.
- Pre-financing: credit up to a maximum of 60% of the guaranteed sale price at the beginning of the harvest, to face the difficulties arising from the scarcity of initial capital and the inability to access institutional credit channels
- Guarantee: annual contracts, which establish coffee purchases and long-term cooperation, which guarantee a more stable and continuous collaboration. These contracts also include a clause stating that the price must be determined directly by the producer.

Fair trade therefore supports small producers, who can thus find direct access to the market, avoiding the exploitation of local coyotes and speculation by financial operators. A process that aims at self-sufficiency and self-determination and allows decent living conditions for the farmers who grow coffee and their families.⁸

3.7. The demand for coffee

According to Statista (Conway, Global coffee consumption 2012/13-2020/21, 2021), coffee is "one of the most frequently consumed drinks in the world" today: About 30–40% of people globally drink coffee every day, and during the past ten years, with a CAGR of 5%, there has been a minor rise in global demand for the beverage, going from 146.98 million 60kg bags to 166.63 million 60kg bags.

⁶ Definition established by FINE (the informal coordination of Fair Trade networks) in 2001.

⁷ Information from the Fair Trade Yearbook: The fair trade challenge in Europe 2001-2003

⁸ www.altromercato.it, Consorzio Ctm altromercato soc. coop

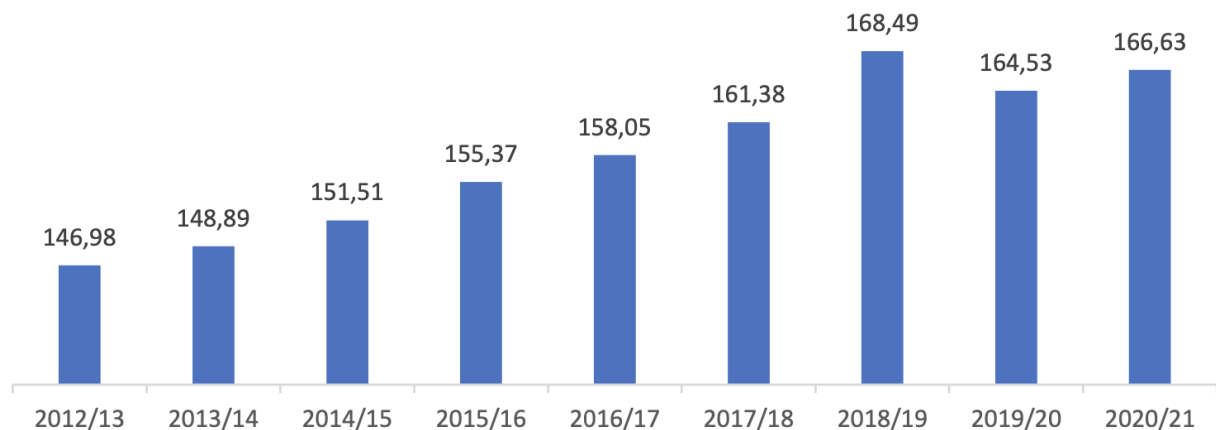


figure 3.7, coffee worldwide consumption from 2012/13 to 2020/21 (million of 60 kg bags)

In general, it is shown that the price elasticity of demand for coffee is equal to 0.3, meaning that if the price goes up by 10%, demand goes down by 30%. It might be claimed that consumers are willing to pay even if the price of coffee goes up since demand is inelastic. On the other hand, if coffee prices drop, demand won't be much impacted.

The following table details the global variations in coffee consumption as of 2020: The Netherlands tops the list with an annual per capita consumption of 8.3 kg, followed by Finland and Sweden with annual per capita consumptions of 7.8 and 7.6 kg, respectively. With 4.7 kg of coffee drunk per capita in 2020, Italy comes in at position 11. 2020 (Armstrong)

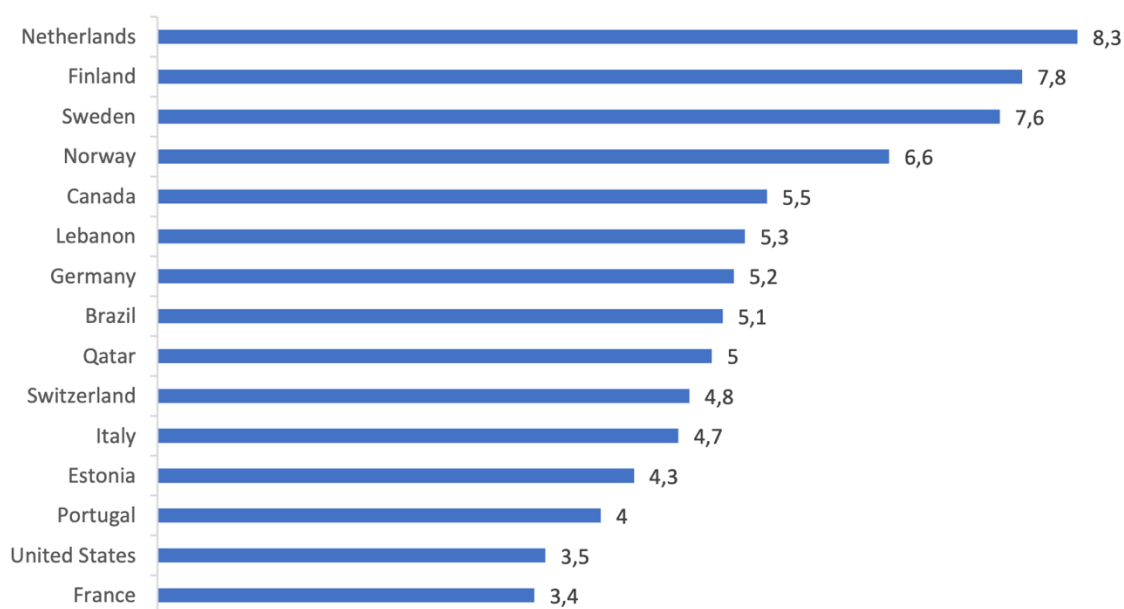


figure 3.8, coffee consumption top fifteen countries (kg per year), estimated average per capita coffee consumption in selected countries, where per capita consumption exceeds 3 kg per year, in 2020 (in kg). source: statista.com

Given that it is obvious that their environment is unsuitable for the cultivation of coffee beans, the increase in coffee consumption in the European Nordic Countries is the result of historical events rather than their geographic location. When coffee first arrived in Europe, only the wealthy and

affluent could buy it. The idea is that the Nordic countries' populations were not very wealthy and that alcohol drinking was strictly forbidden. Despite this, the coffee industry managed to reach the most underprivileged sections of society since they were in need of an alternative to alcohol for social purposes. (2020 Gundersen)

3.8. Deep dive on the Italian coffee demand

3.8.1. The Italian coffee market

This chapter, after analysing the main players in the Italian market, will focus the attention on the Italian market scenario, with a deep dive on the annual consumption trends for coffee segments and Retail channels.

Not only in the collective imagination but also Italian market data proves to be up to expectations. Italian exports of coffee products reached a new high in 2021, equal to 2.6 billion euros, an increase of +14% over 2020. Particularly, there were significant increases in Italian exports of decaffeinated or roasted coffee (+14.1%) and espresso coffee machines (+14.3%). By 2025, Italian exports of coffee products are expected to grow by +5.5%, for a total export value of almost 3.3 billion euros.¹⁶

In 2021, Italian imports of coffee products reached a value of 1,450 million euros, an increase of +6% compared to 2020, reaching the absolute peak in the historical experience of coffee products. The most important component in terms of values of Italian imports concerns coffee beans, which represents over 77% of the total Italian import of the coffee chain.

3.8.2. Roasted coffee: how Covid changed buying and consumption trends

The sanitary emergency has influenced the trends of purchase and consumption of the coffee roasted in the modern channel (source: IRI). The Roasted Coffee closed 2019 with weak growth in the modern channel, where sales are driven mainly by promotions and sales. But the health emergency has created a real watershed with a before and an after in purchasing and consumption habits.

The study analyzed a market of over 1.2 billion euros and 345 million units sold, tracing the changes experienced by the sector in recent months and the differences compared to 2019 (source: IRI).

In Modern Distribution (Hypermarkets, Supermarkets, Free Small Service and Discount) over half of the packages sold and the value of the Coffee category are explained by the Moka segment that, in 2019, shows a sharp decline (-5.1% in value and -4.4% in units) and, with the Espresso segment (-5.1% in value and -4.8% in unit) is responsible for market instability.

¹⁶ <https://www.beverfood.com/documenti/report-hostmilano-uno-sguardo-globale-sui-trend-del-caffe-e-delle-macchine-del-caffe-wd/>

Roasted Coffee and Segments - sales in 2019 (Italy)

	Sells AT December 2019 [value]	Var. Vs Previous Year	sells December 2019 [unit]	Var. Vs Previous Year
Tot Roasted coffee	1.233.299.456,0	0,2	344.923.680,0	0,9
Moka	644.148.288,0	- 5,1	191.053.728,0	- 4,4
Caps	376.147.692,0	11,2	98.269.694,0	14,9
Espresso	85.141.088,0	- 5,1	27.804.680,0	- 4,8
Beans	69.023.832,0	3,8	10.037.456,0	6,3
Pods	58.049.552,0	2,8	17.501.892,0	0,1
Filters	789.028,0	- 9,2	256.224,0	- 10,9

Table 3.9, Source: <https://horecanews.it/caffe-tostato-come-il-covid-ha-cambiato-i-trend-di-acquisto-e-consumo/>

Sales are still strongly driven by an intense promotional activity that almost exceeds half of the volumes developed. Capsules (+11.2% in value and +14.9 in units) and, to a lesser extent, Pods (+2.8% in value and +0.1 in units), are the value segments that support the category. In particular, the former, with an impact of 30.5% on the value of the category and a price positioning above average, show interesting levels of growth and innovation, increasing the assortment of about 9 medium references on the shelf in December 2019 compared to the previous year.

Roasted Coffee: sales per channel in 2019 (Italy)

	Sells AT December 2019 [value]	Var. Vs Previous Year	sells December 2019 [unit]	Var. Vs Previous Year
Italy tot. H+S+LSP+DISC	1.233.299.456,0	0,2	344.923.680,0	0,9
Hypermarkets	182.518.000,0	- 5,3	38.908.024,0	- 4,9
Supermarkets	738.742.336,0	0,8	191.636.688,0	1,5
LS p	151.727.696,0	- 2,3	43.349.296,0	- 1,6
Discount	160.298.144,0	7,1	71.027.240,0	4,3

Table 3.10, Source: <https://horecanews.it/caffe-tostato-come-il-covid-ha-cambiato-i-trend-di-acquisto-e-consumo/>

Also, the Grains show more positive signs than the category, with an interesting growth (+3.8% in value and +6.3 in units) particularly in the Discount channel. Over the past year, roasted coffee has shown a better performance in Supermarkets and Discount compared to Hypermarkets and smaller surfaces at "Libero Servizio", due to the good performance of capsules and pods, while geographically the Northwest was the best performing area. In 2019, however, market sales were also significantly outside the modern channel.

Indeed coffee, according to IRI e-commerce Panel, is the best-selling online category, while it is in fifth position in modern distribution. The growth of the online channel and the favorable characteristics of the product constitute a potential for the category.

The Coffee in 2020

The scenario of the roasted coffee category traced in 2019, however, does not correspond to the year 2020.

The health emergency has significantly affected lifestyles and purchasing and consumption behaviour. In particular, the lockdown, which for two months confined Italians within the home without any possibility of consumption outside the home, has changed the habits with implications that are still under estimation.

Roasted Coffee and Segments - sales in the first quarter 2020 (Italy)

	Sells AT March 2020 [value]	Var. Vs Previous Year	sells March 2020 [unit]	Var. Vs Previous Year
Tot Roasted coffee	329.435.736,0	10,7	92.086.504,0	8,9
Moka	159.400.916,0	3,4	48.014.422,0	2,0
Caps	114.043.713,0	24,6	29.531.080,0	24,3
Espresso	22.254.725,0	5,7	7.132.631,0	1,6
Beans	16.810.555,0	4,0	2.433.324,0	6,0
Pods	16.750.426,0	16,7	4.916.377,0	12,2
Filters	175.406,0	- 17,1	58.671,0	- 15,2

Table 3.11, Source: <https://horecanews.it/caffe-tostato-come-il-covid-ha-cambiato-i-trend-di-acquisto-e-consumo/>

Thus, coffee was involved in the closure of bars, smart working, and the home management of meals (especially breakfast). The numbers thus confirm a renewed impulse of the category in the modern channel, even for those segments that had been in decline for some time.

The increase of the value of the category returns in positive field with a +10.7% in the first trimester of 2020 regarding the same period of the year precedence; increase that reaches +18.7% if we consider only the month of March 2020.

Consumption rewards all segments of the market and, even if Capsules and Filters continue to be preferred (+24.6% and +16.7% in value over the progressive year in March), the moka segment grows by +3.4% in the first quarter 2020 and +10.9% in March.

Roasted Coffee: sales per channel in the first quarter 2020 (Italy)

	Sells AT March 2020 [value]	Var. Vs Previous Year	sells March 2020 [unit]	Var. Vs Previous Year
Italy tot. H+S+LSP+DISC	329.435.736,0	10,7	92.086.504,0	8,9
Hypermarkets	43.128.380,0	- 3,2	9.381.831,0	- 3,3
Supermarkets	203.483.212,0	13,8	52.732.025,0	11,9
LS p	40.912.673,0	12,6	11.658.303,0	10,8
Discount	41.911.475,0	10,9	18.314.346,0	6,1

Table 3.12, Source: <https://horecanews.it/caffe-tostato-come-il-covid-ha-cambiato-i-trend-di-acquisto-e-consumo/>

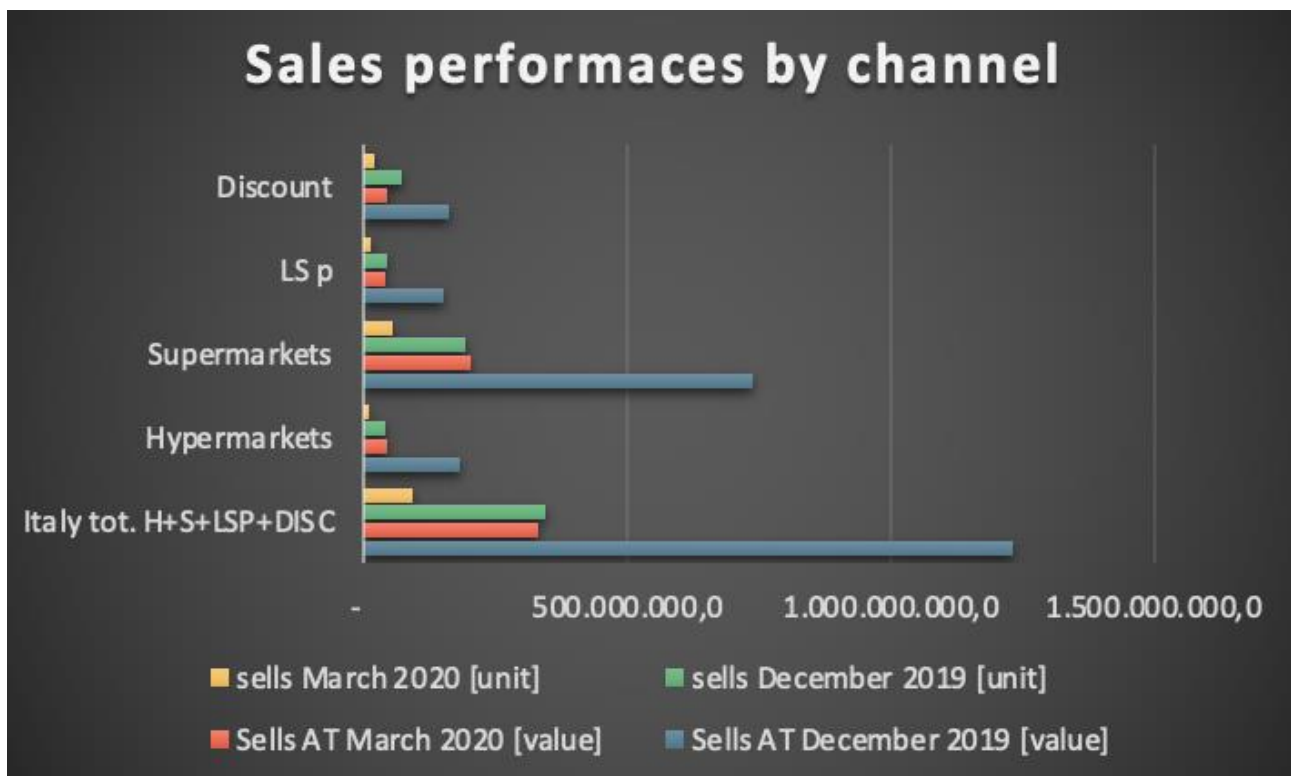


Figure 3.13, source: <https://horecanews.it/caffe-tostato-come-il-covid-ha-cambiato-i-trend-di-acquisto-e-consumo/>

It is clear from the above graph how the sales drop down in terms of value and units sold from 2019 to 2020, due to the pandemic negative effect.

In addition, in the following graph it may be noticed the negative trend by segments too.

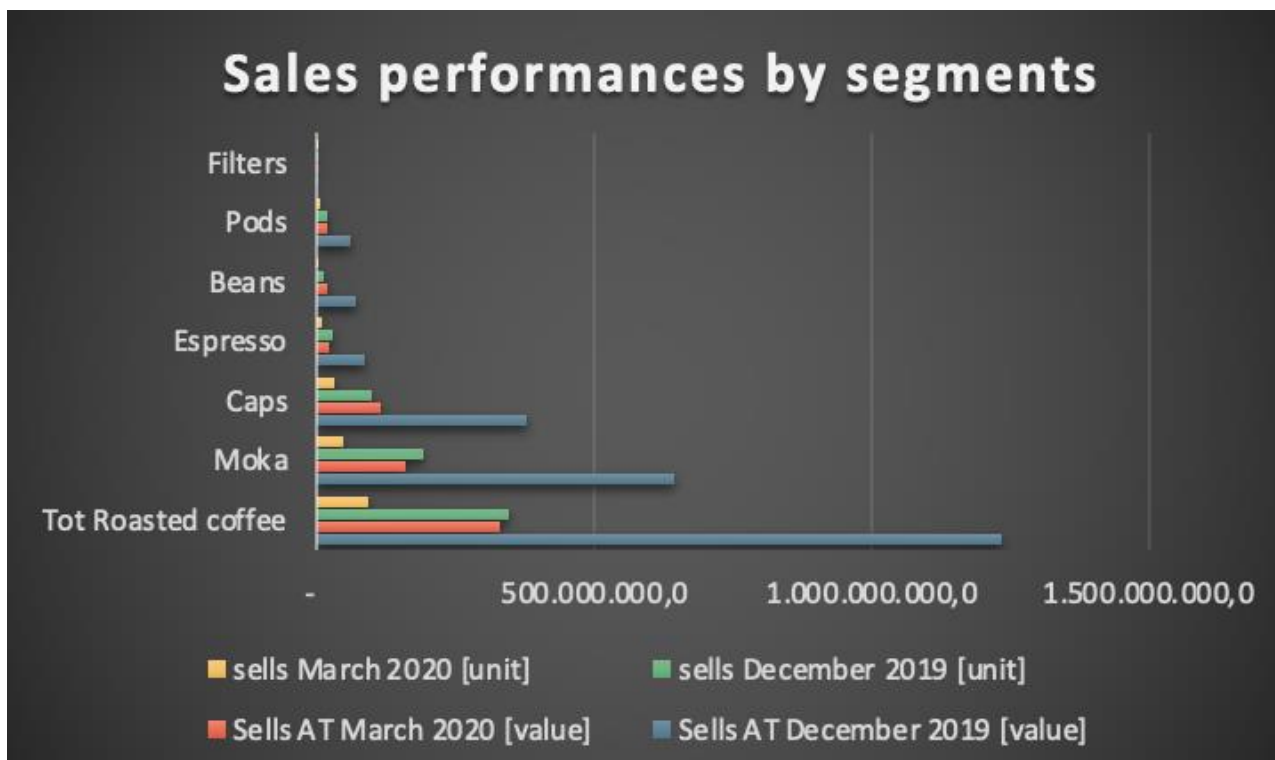


Figure 3.14, source: <https://horecanews.it/caffe-tostato-come-il-covid-ha-cambiato-i-trend-di-acquisto-e-consumo/>

The Online Channel: in the first quarter 2020 +84%

Evidently the strong restrictions imposed by the lockdown and the even more stringent provisions imposed on those who are subjected to quarantine, constitute a very strong impulse for the development of sales in the online channel.

In recent years we have seen an important growth in sales of coffee in the online channel: in 2018 the turnover was 19.5 million Euros with an increase of 149% compared to the previous year.

Il Caffè Macinato nel canale OnLine

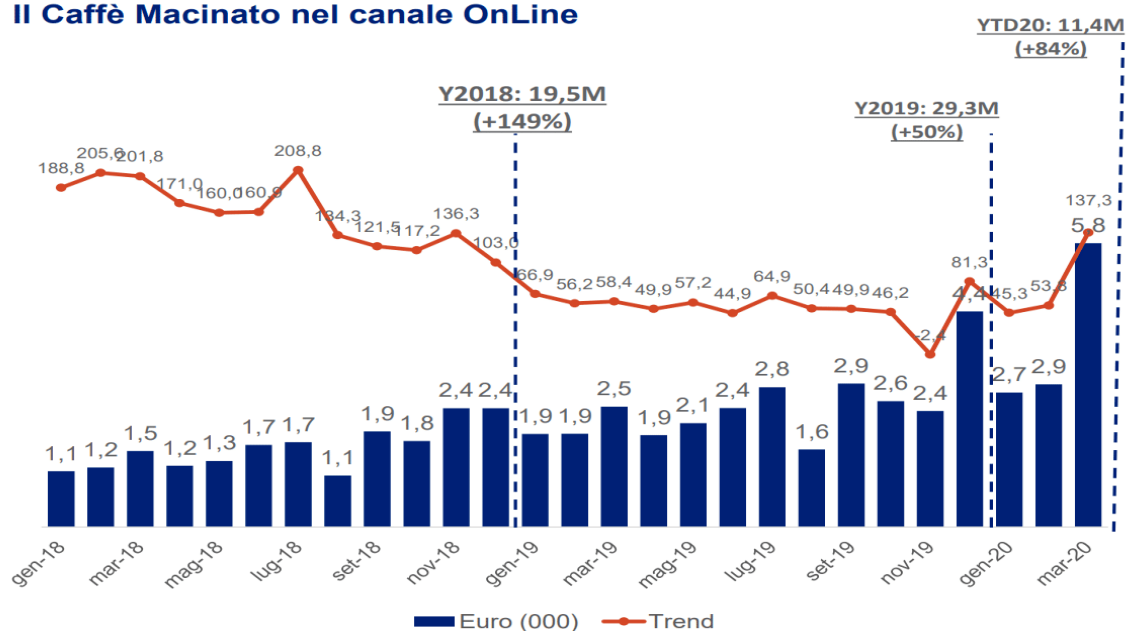


Figure 3.15, source: <https://horecanews.it/caffe-tostato-come-il-covid-ha-cambiato-i-trend-di-acquisto-e-consumo/>

In 2019 the turnover showed a further increase of 50% for a total of 29.3 million Euro and, in the first three months of 2020, the turnover has already reached 11.4 million Euro, an increase of 84% compared to the first quarter of the previous year.

3.8.3. Coffee prices at record levels weigh on the import of Italy

The quotations of the Arabica variety, used in espresso, have been at the record level for 10 years. Production has collapsed (particularly in Brazil), but above all it has become difficult to obtain supplies. To the point that they are emptying the stores of the bags and these days there have been several alarms about the increases in coffee.

According to ICO, the International Coffee Organization, for 2021-22 the situation sees reductions in the supply of the main producers, such as Brazil and Colombia, and a partial increase in supply from other origins: South American exports fell by about a quarter (-24.4%) and the trend seems to continue over the year.

Gerardo Pataconi, head of operations of the ICO, has explained that many analysts and operators in the coffee sector agrees on a prolonged phase of coffee shortage. Indeed, it is expected a

production deficit from 2022, caused by climatic events (in particular a strong frost in Brazil during July), in addition, the instability in some producing countries and logical constraints have led to an imminent shortage of supply that has in turn led prices to a sharp increase in recent months.

Italy, according to data Ico and the Italian Coffee Committee, is a significant player in the European and world coffee market. With over 800 roasters, it is the third largest importer of green coffee after the USA and Germany. Green coffee in our country comes for over 78.6% from five countries (Brazil, Vietnam, India, Uganda and Indonesia) for a total in 2020-21 of 9.4 million bags (from 60 kg each). The sector generates 3.6 billion turnovers, it has 7 thousand employees and exports processed coffee for 4.9 million bags in different forms.

Between January and December 2021, the monthly average of the ICO Index (based on price differentials in a basket of coffee types defined by origin and target markets) grew by 75.5%. The annual average stands at 151.28 cents, the highest level since 2012, reversing the bearish trend that had characterized recent years with serious consequences for millions of small producers. The psychological threshold of 2 dollars for a pound of green coffee was exceeded: the monthly average of the indicator composed in December 2021 stood at 203.06 cents, the maximum value since September 2011, when the monthly average was 213.04 cents.¹⁷

Increase of coffee cup price in 2022

The recent crisis in raw materials has also prompted Fipe, the *Federation of Public Establishments*, to carry out a study to analyze how price tensions are affecting the sector. The increases on coffee are recorded by five out of ten restaurateurs, but it should be considered that the sample interviewed is mainly composed of restaurants and not bars. On average, the increase recorded is 9.5 percent. Just under two out of five entrepreneurs estimate an increase between 5 and 10%, for almost 4 out of ten the increase exceeds 10%. The remaining 16% report increases of less than 5%. According to Fipe, however, the increase in price lists that could occur in the coming months is not explained only by the increases in the prices of raw materials, there is also to consider that four out of ten restaurateurs for two years or more does not make a change in the sales list.

The confirmation comes, however, from *Assoutenti* which claims that the cost of coffee at the bar has now reached, on some counters, 1.50 euros with an increase of 37.6 percent. On their side the baristas complain that the price of coffee for them has increased on average by one euro per kilo in a few days.

«In order not to lose customers we try not to increase the cup and pour the price increases on other products, because coffee is a measure of consumers, but we do not know until we can resist» says an Italian barman.¹⁸

¹⁷ <https://www.ilsole24ore.com/art/caffe-prezzi-livelli-record-pesano-sull-import-dell-italia-AEjEui8>

¹⁸ <https://www.ilsole24ore.com/art/caffe-prezzi-livelli-record-pesano-sull-import-dell-italia-AEjEui8>

4. Competitive coffee market scenario in Italy

The main producers

In Italy there are about 800 companies that work mainly coffee and other infusions, but the first four production groups in the sector absorb about half of the total market. In retail the market is much more concentrated around national leaders. The first three groups (Lavazza, Nestlé and Kimbo) absorb 58% of modern retail. Indeed, in this channel the private labels of GDO (Grande Distribuzione Organizzata) groups and chains (about 9% of total sales in this specific sector) and even more decisive in discounters take on an interesting role.

Much more fragmented and geographically varied is the market dell'Ho.re.Ca. and Vending, where there is no real leader with dominant odds. In the portioned coffee sector, there is also a good concentration, but the price competition of many small and medium-sized operators begins to feel its effects on the aggregate market share by volume of the first five companies with proprietary systems, which increases from 55.5% in 2015 to 50% in 2017, to the advantage of many direct competitors who propose compatible capsules at competitive prices.

Finally, it should be noted that a significant part of Italian roasting companies, including those of medium/small size, is projected on the international market with significant values in terms of exports.¹⁹

4.1. Lavazza Group



Figure 4.1, source: www.lavazzagroup.com

Lavazza, owned by the family of the same name for four generations, is among the world's leading coffee roasters, as well as being the undisputed market leader with a market share of over 40% in retail.

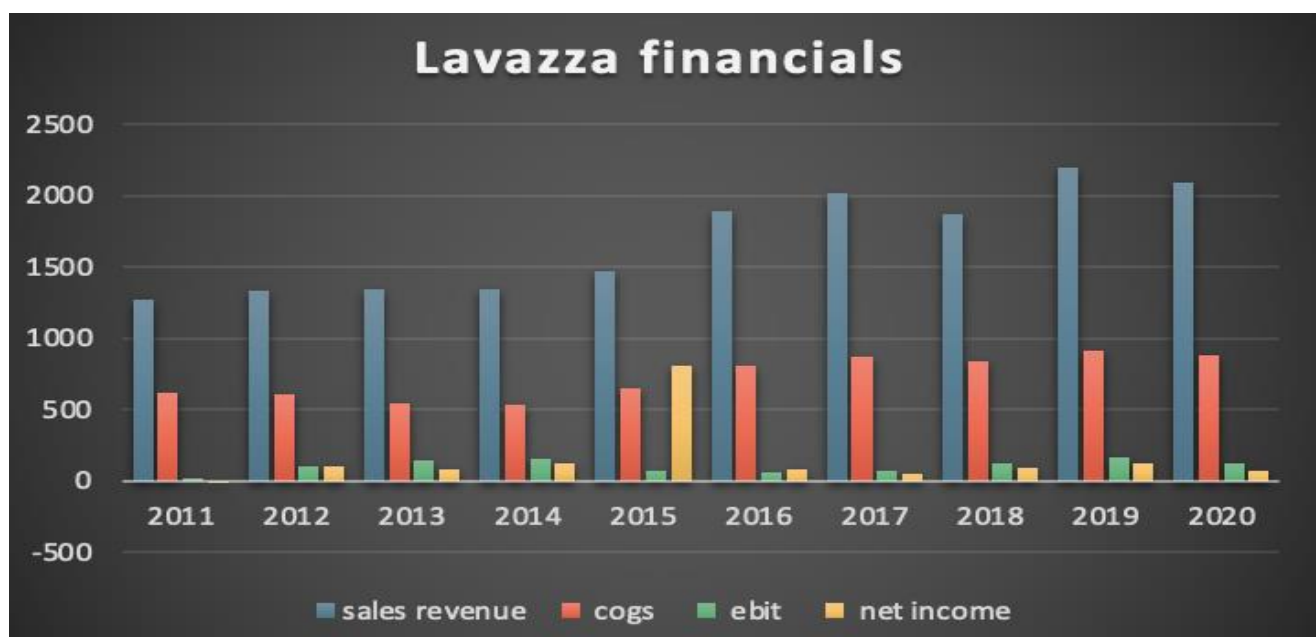
¹⁹ <https://www.beverfood.com/scenario-competitivo-mercato-caffe-italia-principali-produttori-wd/>

After the latest acquisitions, Lavazza has a turnover of approx. 1.9 billion €, of which over 64% made abroad, where it operates in over 90 countries, through subsidiaries and distributors.

Lavazza has invented the concept of blending, the art of combining different varieties and geographical origins of coffee. The company also has more than 25 years of tradition in the production and marketing of systems and products for portioned coffee, establishing itself as the first Italian company to work on espresso capsule systems.

In 2016 the group launched the “*Prontissimo!*” Also entering the soluble coffee market, quite marginal in Italy but of considerable importance in other foreign markets. ²⁰More recently, the group has significantly strengthened its commitment to sustainability by launching the Lavazza *iTierra line!* including the Bio Organic version. Lavazza is present in all businesses: at home, away from home, automatic distribution and in the office, always aiming at constant innovation. Today Lavazza boasts a brand known worldwide, grown thanks to important partnerships perfectly consistent with the internationalization strategy of the brand.

The group is also active in the field of coffee shops under its own brand with the signs Caffè di Roma and Lavazza Espresso. In 2017, the group inaugurated in the center of Milan its first Flagship Store in which to live the experience of coffee at 360 degrees and the innovative creations of Coffee Design. The Lavazza Group includes the French companies *Carte Noire* and *ESP*, the Danish *Merrild*, the Canadian *Kicking Horse Coffee* and the Italian *Nims*. Recently the Piedmonts’ group has also acquired the coffee business of the *Mars group* in the USA.²¹



	2.011	2.012	2.013	2.014	2.015	2.016	2.017	2.018	2.019	2.020
SALES REVENUE	1.269	1.331	1.340	1.344	1.473	1.896	2.015	1.870	2.200	2.085
COGS	622	604	543	537	650	808	867	840	909	882
EBIT	16	98	145	156	72	62	67	120	166	122
NET INCOME	9	97	85	127	802	82	45	88	127	73

figure 4.2: sales revenues, cogs, ebit and net income of Luigi Lavazza S.p.A., from 2011 to 2020. source: orbis-bvdinfo.com,

²⁰ <https://coffeeknowledgehub.com/en/news/the-beat-of-the-global-coffee-industry>

²¹ <https://www.lavazza.it/it>

4.2. Illy caffè



Figure 4.3, source: <https://it.wikipedia.org/wiki/Illycaffè>

Based in Trieste, Illy caffè is known worldwide for its blend of nine types of pure Arabica coffee. It is a leading brand in the high-quality coffee segment. illycaffè also manufactures and distributes *Iperespresso coffee* and hot beverage capsule systems. In addition, it produces and distributes OCS coffee capsule systems and hot drinks through the company *Mitaca*.

Illycaffè's sales revenues, cost of goods sold, EBIT, and net income are shown in the graph. Despite 2020 being a highly unique year owing to the pandemic problem, it is easy to see that sales revenues have climbed throughout the years, along with EBIT and net income.

Illy caffè has recently signed a partnership agreement with the multinational Jacobs Douwe Egberts (JDE), under which JDE will produce illy coffee aluminium capsules. The company is also involved in the coffee sector with "expressly illy", Italian coffee chain (259 coffee shops worldwide). In 2018 the company reported a turnover of 483 million euros of which 65% abroad, reaching Italy's second-largest coffee roaster. The total workforce is 1300 people, indeed the company promotes coffee culture with over 27 locations of the University of Coffee. Illy caffè is part of the illy Group, the holding company of the Illy family. The mission of the group is to develop a long-term pole of taste that, in addition to coffee, includes tea, chocolate, wine, jams and more.²²

²² <http://www.illy.com>

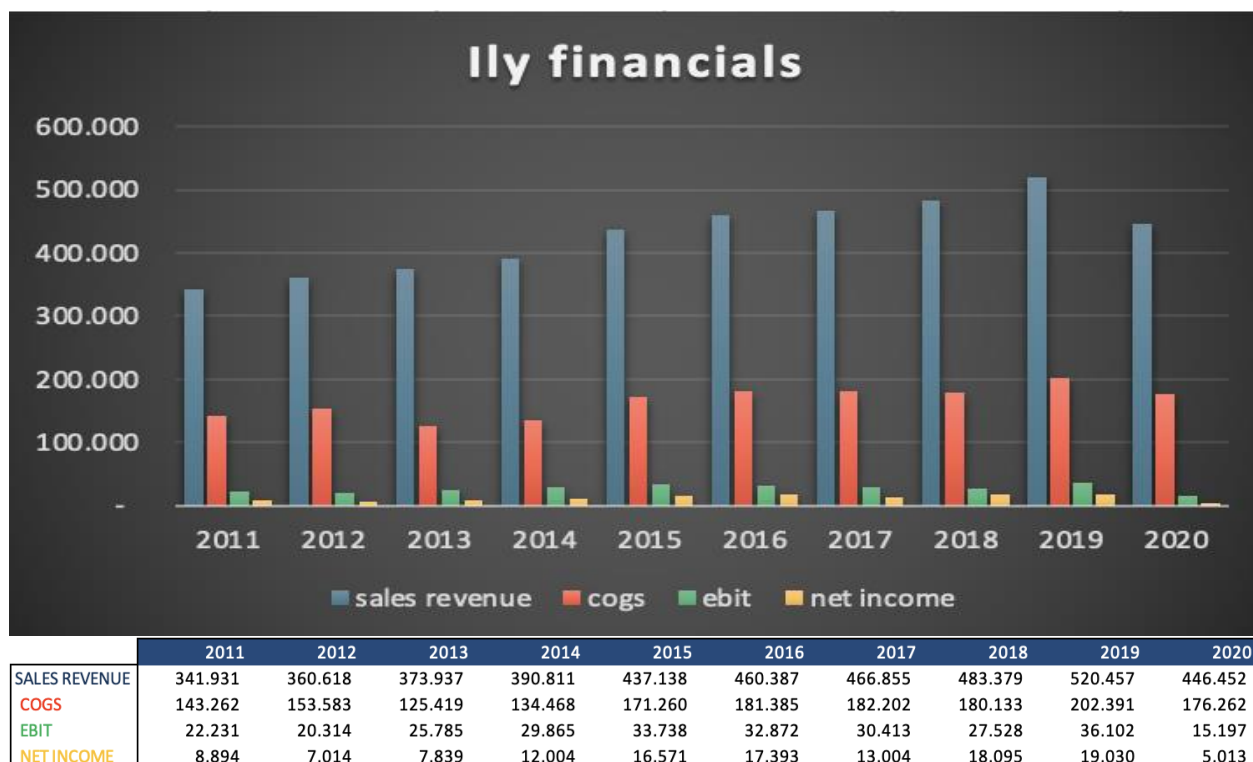


figure 4.3: sales revenues, cogs, ebit and net income of Ily caffè from 2011 to 2020. source: orbis-bvdinfo.com,

4.3. Kimbo



Figure 4.4, source: https://it.wikipedia.org/wiki/Kimbo_Caffè

With a total turnover of 181 Mln € in 2017 and a staff of over 200 employees, the Neapolitan company is the second player by volume in the retail channel in Italy, with a market share that has now reached 13% in this specific channel. Today, retail accounts for more than 2/3 of turnover, followed by Ho.re.Ca. and Vending and OCS (Office Coffee Service) channels. The sales network covers all distribution channels and is strengthened by important international partnerships and several alliances in Italy, including collaboration with *Autogrill*. The company is also establishing itself abroad, where it has now reached 20% of total turnover, with a presence in about 80 countries around the world and with strong positions on the French market, where Kimbo is distributed in over 11,000 bars and cafes. Under the Kimbo brand (the Italian Espresso inspired by the Neapolitan tradition), the company operates with a range of products and packages, including portioned coffee. The company also operates with the complementary brands *Kosè* and the *Golden Cup*.²³

The financial information for Kimbo is accessible from 2013 until 2020. Figure 4,5 illustrates the fact that sales revenues have been essentially constant over time. Year-to-year variations are significant, but it is evident that the Company has felt the full impact of the pandemic problem in 2020, when sales revenues are at their lowest point.

²³ https://it.wikipedia.org/wiki/Kimbo_Caffè



	2.013	2.014	2.015	2.016	2.017	2.018	2.019	2.020
SALES REVENUE	166.647	161.357	165.792	170.365	175.367	175.595	163.260	153.947
COGS	63.551	70.827	76.868	80.872	81.599	75.139	67.880	62.844
EBIT	18.638	10.398	3.763	4.427	1.331	10.866	4.998	4.258
NET INCOME	11.386	6.311	1.754	2.209	108	6.870	4.010	3.155

figure 4.5: sales revenues, cogs, ebit and net income of Kimbo from 2013 to 2020. source: orbis-bvdinfo.com,

4.4. Caffè Borbone



Figure 4.6, source: <https://www.foodserviceweb.it/2021/03/09/borbonciok-il-cioccolatino-ripieno-al-caffe-di-caffe-borbone/caffe-borbone-logo/>

Caffè Borbone is a young Neapolitan company that has rapidly grown thanks to the success of its brand, leader in the production of coffee pods and one of the leading Italian operators of coffee

capsules. Until recently, his core business involved Vending channels and online sales. The company has now decided to diversify and address the large-scale distribution channel. Recently the control of the Neapolitan company passed for 60% to the *Italmobiliare* fund of the *Pesenti* family, while 40% remained in the hands of the entrepreneur and founder Massimo Renda. The company closed 2017 with a turnover of 93 million € which in 2018 jumped to 135 million.²⁴

It is remarkable how sales revenues increased exponentially over the past nine years, going from a turnover value of 18,802.568 thousand euros in 2011 to 219,260.000 thousand euros in 2020, indicating that the company is gaining popularity in Italy.

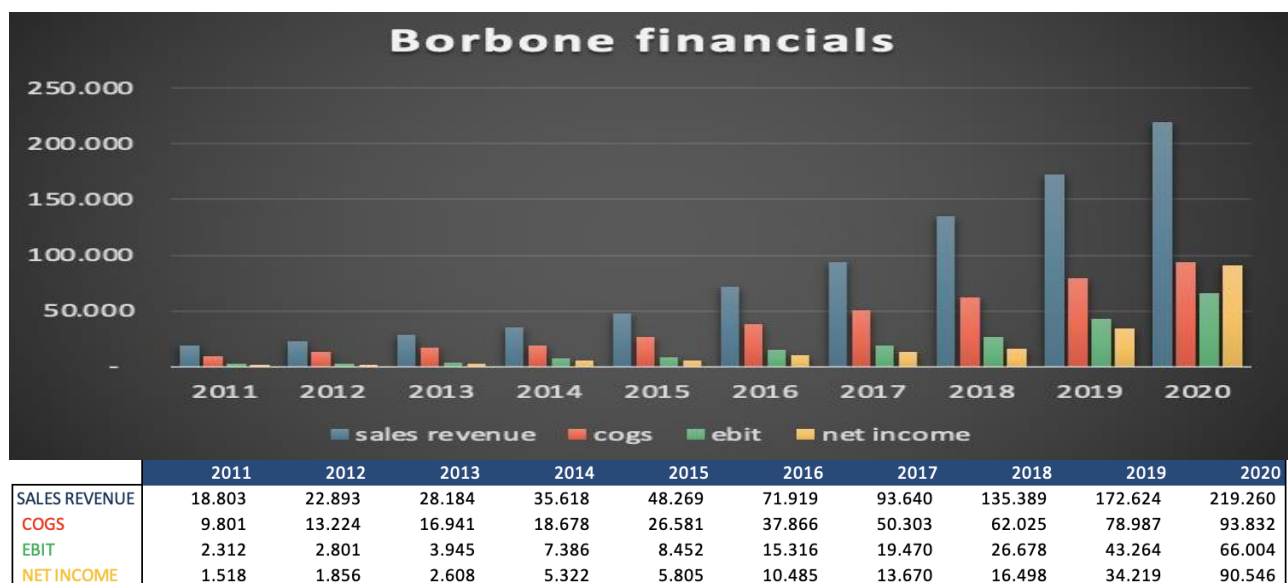


figure 4.7: sales revenues, cogs, ebit and net income of Caffè Borbone from 2011 to 2020. source: orbis-bvdinfo.com,

4.5. Casa Del Caffè Vergnano

²⁴

https://www.caffeborbone.com/it/it/?gclid=Cj0KCQjwteOaBhDuARIsADBqRejJl4dsalXDtbmqkY6nSOMDLEKxprLbScZzVbPuSUjUJLIG37TGY0aAjROEALw_wcB&gclid=aw.ds



Figure 4.8, source: https://it.wikipedia.org/wiki/Caffè_Vergnano

Italian coffee roasting firm Casa Del Caffè Vergnano S.p.A., also known as Caffè Vergnano, was established in Chieri in 1882 and is presently headquartered in Santena, a suburb of Turin. Among the major coffee roasters, Caffè Vergnano is regarded as Italy's oldest coffee maker. Domenico Vergnano began the business in 1882. It was a little grocery shop in Chieri, a hamlet in Turin's hills. The first three Italian warehouses were opened in Turin, Alba, and Chieri as a result of the business rapid expansion. The corporation bought a coffee estate in Kenya in the 1930s, though, and that was when things really took off. It is the sixth Italian company in the large-scale distribution channel and has a plant that is 13,500 square meters in size with 24 automated production lines. It is also present globally with more than 70 locations across 19 countries and is present in 19 regions with more than 4,500 HORECA customers. Additionally, it exports to more than 80 nations. Since the year 2000, the firm has been working to spread the word about its products and brand by using the cafeterias that are now spread out pretty much everywhere in the world.

It has been successfully continuing for over 135 years in the name of tradition and innovation to promote coffee culture in Italy and worldwide. The company has grown steadily in recent years, thanks to the boom of capsules, which the company has been able to exploit both with capsules with its own system and compatible capsules. Vergnano is among the first companies to have also developed new compostable capsules. Today the company, with 140 employees, has a turnover of around 85 million euros, of which, in Italy, 35% in the large distribution, 40% in the channels Ho.re.Ca, Vending & OCS. The foreign turnover, with a presence in 90 countries, reaches 25% of the total company turnover; the company is now developing an international image through the activation of numerous Italian-style cafes under its own brand (over 150 worldwide).²⁵

²⁵ https://it.wikipedia.org/wiki/Caffè_Vergnano



	2.011	2.012	2.013	2.014	2.015	2.016	2.017	2.018	2.019	2.020
SALES REVENUE	56.393	63.654	63.568	68.130	71.858	76.258	80.025	85.222	94.024	79.123
COGS	29.747	32.697	29.338	30.810	34.133	36.291	39.686	37.815	40.680	36.082
EBIT	1.261	1.318	2.137	2.943	1.489	1.818	1.585	4.710	7.463	2.913
NET INCOME	106	256	760	1.332	501	857	1.122	3.724	5.199	2.086

figure 4.9: sales revenues, cogs, ebit and net income of Caffè Borbone from 2011 to 2020. source: orbis-bvdinfo.com, [data in million euros]

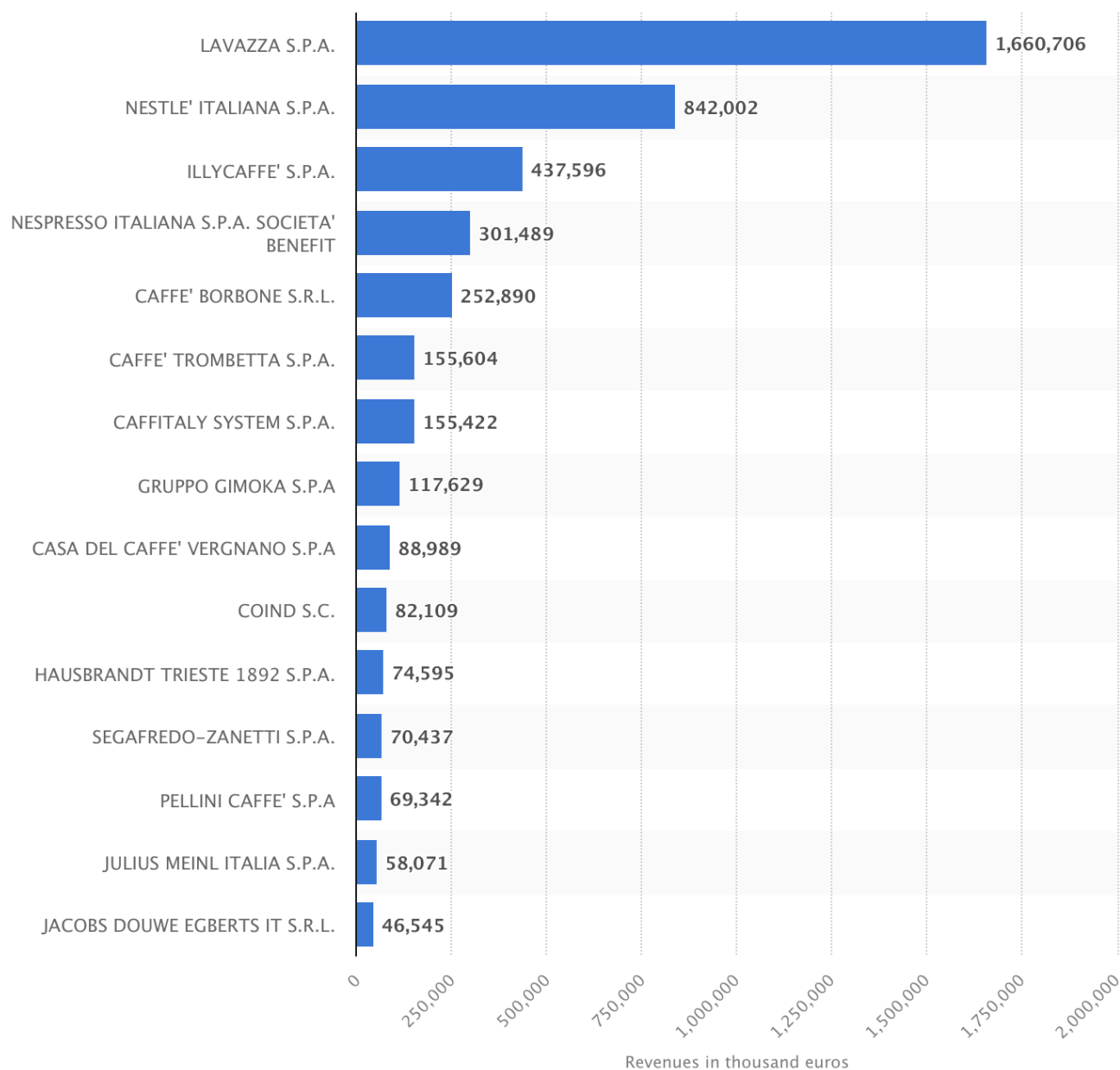


Figure 4.10, Leading coffee companies in Italy in 2021, by revenues (in thousand euros), source: statista.com

As can be easily seen from the previous figure, the coffee market in Italy is highly fragmented. The main changes in the coffee market, which affected the year 2020, coinciding with the pandemic from Covid-19 were explained by IRI. ²⁶But how many of these changes are cyclical and therefore simply children of the situation we are living? And which ones are structural? The question is therefore how much the new habits will become part of the consumer routine, even after returning to normal. At present, only a few general considerations can be made. Some trends such as attention to health (less sugar, less calories, more fiber, etc.), the search for naturalness and well-being as a synonym for quality of products, were already weakly present for some time on the market and have benefited from the current situation, which favored the acceleration of their development. In this period of emergency it tends to concentrate the expense in a single shopping

²⁶ <https://www.beverfood.com/iri-mercato-italiano-caffe-moderna-distribuzione-2020-wd/>

expedition, making planned purchases and aimed at storage; the presence or not of promotions almost takes second place. In addition, sales of high-end products increase precisely because consumers want a viable alternative, even for breakfast that they previously enjoyed outside the home. However, it is important to consider the economic crisis that is worsening further; Many families are in difficulty and will be increasingly so. Therefore, in the near future, the use of promotional leverage will return to be a key purchasing driver. Operators in the sector should therefore consider these variables and be ready to respond adequately to the increasingly changing needs of consumers. All operators of the world of Breakfast and Coffee will certainly have to take into account these changes.

Bearing in mind all these market insights, It can be concluded that considering a saturated Italian coffee market and the fervent competition of the various coffee roasters, these are now forced to look for new solutions to increase their profits and maintain or increase their market share.

In the next chapters they will be analyzed in detail some of the market strategies such as product diversification and internationalization implemented by the industry leader in Italy: Lavazza S.p.A.

5. Lavazza Group

5.1. Between Innovation and Sustainability

The Lavazza Group, one of the key players on the world coffee scene and engaged in many industry categories, was founded by the entrepreneurial ambition of a distinguished Italian family, the Lavazza family. With 9 production facilities in 6 countries and over 4,200 workers and global partners, it works in 140 markets. This worldwide presence results from investments in research and innovation with a continuing focus on sustainability, as well as from a growth path that has lasted for more than 126 years. Today, the almost 30 billion cups of Lavazza coffee that are consumed annually stand testament to a wonderful success tale.

In the past, Lavazza has emphasized innovation as the trademark of its entrepreneurial activity and the secret to ensuring that it can continue to provide the greatest coffee, in whatever form. Lavazza has always revolutionized the coffee culture, with courage, energy, and dependability, modernizing tradition to anticipate the needs of the market and consumers. This includes the intuition that led to the Company's first success—the coffee blend—as well as the development of innovative packaging solutions.

Group's strategy applies to all of the brands and establishes a shared culture built on responsible innovation, enthusiasm, integrity, and competence that serves as a roadmap for the company's ongoing provision of coffee of the highest caliber.

5.2. Businesses and brands

Businesses:

5.2.1. Retail



Figure 5.1, source: <https://www.amazon.it/Lavazza-Caffè-Macinato-Crema-Gusto/dp/B00XUNTQOU>

The Lavazza Group dominates several important markets in the At Home consumption channel, including Italy (under the Lavazza brand), France (under the Carte Noire brand), Denmark and the Baltics (under the Merrild brand), and Canada (under the Kicking Horse brand).

The assortment, which varies by country, consists of whole bean and ground coffee products for espresso, moka coffee pot, and filter systems, as well as pods, instant coffee, ready-to-drink beverages, and capsules for the most popular home systems worldwide. It is designed to satisfy the preferences of every customer.

The Group also markets its At Home products through *Nims*, which provides direct door-to-door sales of coffee products to its customers as well as prompt, timely warranty, and support service. This is made possible by a network of personal coffee shoppers who build direct, trustworthy relationships with their clients.

Finally, Group brand items may also be acquired online using a complex e-commerce network, which includes direct stores on proprietary websites, an appearance on sizable general-interest platforms (marketplaces), and the online channels of the biggest retailers.

5.2.2. Retailing

The Group maintains a direct relationship with the customer through its Lavazza-branded own and franchised locations.

The product is upgraded in all of its forms, from the most traditional, like espresso, to the most unexpected Coffee Design preparations, as part of Lavazza Flagship Stores' extensive, immersive coffee experience. The first Lavazza Flagship Store opened in Milan in 2017, and the one in central London opened in September 2021. It will be placed in a historic structure next to the famous Liberty department store on Great Marlborough Street.

The Lavazza Group and Yum China, the largest restaurant company in China based on total sales in 2020, established a joint venture in 2021 to explore and develop the concept of the Italian coffee shop in China. The joint venture opened about 20 points of sale in 2021 to complement the first coffee shop opened in Shanghai in 2020. China is another important market where coffee consumption has great potential but has not yet been fully realized. In addition to distributing and marketing Lavazza's retail products and serving as the Group's only distributor in mainland China, the joint venture plans to establish 1,000 Lavazza coffee shops in China by 2025.

5.2.3. Food Service



Figure 5.2, source: <https://www.lavazza.it/it/business/ristorazione>

Lavazza offers industry experts specialized, tailor-made goods and services for all service modalities and forms of coffee preparation. A wide range of professional equipment, specialized service supplies, and all communication tools are made accessible to assure quality in every cup while

allowing for full use of the coffee ritual. The Lavazza Training Center supports clients in their daily activities with training programs that concentrate on theory and operational consulting, delivered on-site by a team of experts that work in accordance with the SCA's international standards of excellence (Specialty Coffee Association). The line is completed with complementary goods such hot chocolate, ginseng and barley drinks, tea, infusions, and granitas in addition to coffee.

5.2.4. Office Coffee Service (OCS) and Vending

In recent years, the Lavazza Group has strengthened its presence in the B2B market by purchasing the French ESP (Espresso Service Proximité), the Australian BLUE Pod, and the Lavazza Professional business, which operates on numerous key markets for the Group: the USA, the United Kingdom, France, Germany, and Japan.

Figure 5.3, source: <https://www.lavazza.it/it>



5.3. Brands

The Lavazza Group brings together the global Lavazza brand with the brands Carte Noire, Kicking Horse and Merrild, each a market-leader in its country, all united by a focus on quality, yet quite distinct in terms of characteristics and personality.

5.3.1. Lavazza

Figure 5.4, source: <https://www.lavazza.it/it>

The Group's global brand, Lavazza, is well recognized as representing genuine Italian coffee. Lavazza is a stable, long-standing leader in Italian retail chains, where it offers specialized products and services in the At Home, Away From Home, and OCS business categories. Due to its ongoing dedication to sustainability, it also has a strong reputation and brand recognition across all of the most strategic markets.

As a pioneer in communication, the Lavazza brand has throughout the years developed global partnerships with leaders in top cuisine, sport, and culture. The brand delivers experiences that go far beyond the pleasure of a superb espresso and conjures up sustainability, flavor, and wellbeing.



5.3.2. Carte Noire

The most popular retail coffee brand in France is Carte Noire, an emblem of the French art of coffee that has long been renowned for producing very high-quality coffee. Since 1978, Carte Noire has distinguished itself for its sophisticated mixes and for being the first company in the French market to sell goods made entirely of Arabica thanks to the foresight of its creator, René Monnier. René Monnier was able to popularize coffee in a nation known for appreciating fine wine and food through a creative communication that was influenced by film. As of right now, Carte Noire dominates the French coffee industry in terms of penetration, reputation, and image. The Lavazza Group, of which it has been a member since 2016, finds it to be the ideal brand.



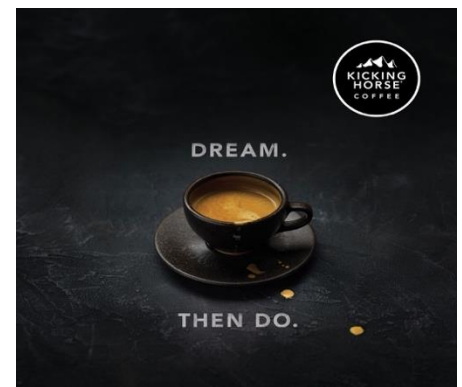
Figure 5.5, source: <https://www.cartenoire.fr>

5.3.3. Kicking Horse Coffee

Figure 5.6, source: <https://www.facebook.com/KickingHorseCoffee/photos/a.153239768040428/2676977172333329/>

Kicking Horse Coffee was established in 1996 in Invermere, British Columbia, in the Canadian Rocky Mountains, where founders Elana Rosenfeld and Leo Johnson experimented with the art of roasting and blending coffee grown using only natural methods in their quest to establish an innovative coffee roasting company. The company's emphasis on organic fair-trade coffee grew over time, and all of its products are now 100% organic and fair trade certified.

According to the 2019 Gustavson Brand Trust Index, Kicking Horse has been recognized as Canada's most trusted brand and is presently the market leader for organic coffee in North America. In 2017, it joined the Lavazza Group.



5.3.4. Merrild

Mller Merrild, a businessman who began a modest coffee roasting business in 1964 in Fredericia, a tiny municipality on the beach of the North Sea, was the inspiration for the creation of Merrild. His passion was to enhance the marketable coffee blends. His research led to the creation of high-quality formulas with distinct flavors, some of which are still used today. This helped the brand flourish and become the market leader for coffee in Denmark and the Baltics. Intense social sustainability action by the brand also reflects this prominent position. Merrild joined the Lavazza Group in 2015, in accordance with the organization's emphasis on quality.



Figure 5.7, source: <https://merrild-kaffe.dk>

5.3.5. Worldwide production plants



Turin, the first historical plant:

Roasting and packaging of grain and ground products (roast & ground). One of the biggest and most cutting-edge facilities in the world for producing and roasting coffee is in Turin. A computer system automates and manages every step of the process.



Gattinara, where automatic distribution was born:

In Gattinara, capsules are produced for the Lavazza Espresso Point, Lavazza BLUE, and Lavazza A Modo Mio systems. The corporation has made significant expenditures in the plant's technological improvement and increased manufacturing activity.



Pozzilli, from Italy, the DEK for the whole world:

The Pozzilli production facility, established in 1991, is devoted to the natural decaffeination of green coffee utilizing carbon dioxide, a substance present in both the air we breathe and the sparkling water we consume.



France, on the French market with Carte Noire

In 2016, Lavazza incorporated the Languedoc-Roussillon region's Lavérune manufacturing facility into its own industrial structure. In doing so, it established itself in one of the top five coffee markets in the world, which is currently the second-most important market for the firm.



India, products for the local vending market:

Lavazza established the eighth subsidiary of the firm in India in 2007. The Andhra Pradesh state's Sri City manufacturing facility in India supplies coffee for the domestic market as well as meeting the demands of the neighborhood vending market.



Brazil, from Bemposta, coffee for Brazil:

Lavazza bought the businesses Café Gro Nobre and Café Terra Brasil in 2008. The local food service channel is supplied by the Brazilian roasting production facility in the resort of Tres Rios, in the state of Rio de Janeiro.

5.4. Group positioning

5.4.1. At home business

The domestic food consumption goods category continued to rise at the unprecedented rate seen in 2020 in the context of the Covid-19 pandemic emergency in the first months of 2021 as well, before slowing down in the second half of the year. Future average growth for the channel is predicted to reach +4.1% between 2021 and 2026, with regional variations in growth rates (*Food & Beverage Sector Report, November 2021, Edge by Ascential Retail Insight*).

Winter 2020–2021 saw the continuation of the more or less generalized lockdown scenarios, which also caused a shift in consumer behavior away from at-home channels and toward retail, albeit at a slower rate than in 2020. This change in consumer behavior was primarily brought on by the rise in remote work, particularly among white collar workers.

As a result, growth was somewhat muted compared to 2020 levels due to the initial reopenings, especially from the summer on. However, growth was also aided by a general shift in home-work habits.

Intense competitive pressure and marketing aimed at maintaining market shares had an influence on the dynamics in the multi-service segments of the more developed geographic areas. The Lavazza brand benefited from its premium positioning and offering in a variety of developing markets, particularly in the segments best served by the brand's products. It also successfully defended its position against competitors in the key geographic regions by focusing on the value levers of its portfolio.

The Group brands grew across all of the geographic regions, with more moderate growth in the consolidated ones (Italy, France, and Denmark), while all of the other regions showed higher and very sustained growth, driven in part by an increase in at-home consumption brought on by Covid-19's impact on the market and in part by an increase in the share of the Lavazza brand due to distribution and mix improvements, with notable peaks in North America, Germany, and the United States.

Additionally, in 2020, both pure-online channels and traditional shops' click-and-collect, and home-delivery services benefited from the limitations on mobility imposed in many nations to deal with the pandemic. Thanks to the online market share, growth remained consistent throughout 2021, partially offsetting the decrease seen in physical stores after the initial reopenings.

In this regard, Lavazza's e-commerce channel continued to record growth that was consistent with the acceleration in the major geographic areas, sometimes even above benchmarks in nations like the US and the UK. Additionally, a process for updating the current business models was started to improve the channel's responsiveness to new business prospects.

5.4.2. Away From Home business

FOOD SERVICE (HO.RE.CA)

The consequences of the second and third waves of COVID-19, which occurred from January to April, had a significant influence on the consumption pattern in the Food Service channel and seriously harmed the company's performance in the first half of 2021. The second half saw a substantial comeback, nearing pre-pandemic levels, propelled by the success of the summer season. Despite

being a noticeable improvement over 2020, which had been negatively impacted for virtually the entire year, this upward trend was unable to reach 2019 performance levels by the conclusion of the year.

Governments (mostly in Europe) instituted localized and gradually tougher lockdowns in response to the gravity of the crisis in the first half of the year, which had a significant influence on Ho.Re.Ca performance, but to a smaller extent than in 2020. In addition to the physiological resumption of the summer season, the mass immunization campaign proved essential for a more stable recovery, making summer a pivotal time for the whole Away From Home globe. This latter aspect enabled the recovery to stabilize in both Europe and the USA (although Australia had distinct dynamics), although the channel segments showed varying rates of recovery:

- **Cafés and restaurants:** Following the significant crisis experienced in the first half of the year as a result of regional lockdowns and strict capacity restrictions, this sector benefited from a strong recovery in the summer, which caused café and restaurant consumption to significantly increase compared to 2020, though it is still below 2019 levels. Italy is one example, which had a sector turnover that was +83% higher than in 2020 but still 34% lower than in 2019. (source: Il Sole 24 Ore). Despite the updated capacity restrictions and the necessary Green Pass for consumption in the majority of European and non-European nations, this tendency is still present.
- **Hospitality & Travel:** With a steep global decline in bookings compared to 2019, the travel sector failed to rebound and continues to suffer the most effects. Nowadays, aviation traffic is only about 42% of what it was in the years before the epidemic (source: The Economist). However, the sector benefited from the summer, seeing a partial recovery in the losses suffered in the first half of the year due to the easing of restrictions, the increase in vaccinations in Europe, and the reopening of the EU to fully vaccinated travelers from third countries: international visitor arrivals increased by 58% between July and September 2021 compared to the same period in 2020.

The Food Service channel's consumption patterns for coffee were consistent with those of the Away From Home channel as a whole. The performance of the business divisions was clearly correlated with the pandemic evolution: generally, volumes saw a sharp contraction from January to April (-40% compared to 2019), with the gap gradually closing from May onwards, reaching a low of -20% in the year's final months.

The two major markets for Lavazza, Italy and France, were among the most negatively hit and, despite a strong performance rebound in the summer, they were unable to erase the deficit created in the year's early months. The Australian and British markets were both as vulnerable (the latter of which suffered the longest lockdown period in history).

Contrary to the trend, several markets outperformed 2020 outcomes and returned to levels seen before COVID-19.

These were Eastern Europe, the Balkans, and the Middle East, which managed to overcome the negative effects of the pandemic and somewhat offset the poor performance of the other business divisions due to less limitations put in place and an expanding distribution activity. In this context, the Lavazza Food Service channel focused primarily on creating medium- and long-term strategic initiatives meant to boost investment efficiency, maximize the channel's profitability in the most consolidated geographic areas, and increase penetration in lower-distribution or high-potential business sectors.

OCS/VENDING

Consumption in the OCS/Vending channel is closely correlated with the number of hours worked, namely, the presence of individuals at work locations including production sites, offices, and enterprises, as well as home-based commuting. Even in 2021, the Covid-19 pandemic-related restrictions continued to have a detrimental impact on this metric, albeit to a lesser level than in 2020. More precisely, if constraints had an influence on the channel internationally in 2020, 2021 saw encouraging indicators in all consuming sectors (production facilities, offices, travel and tourist industry, etc.), but with a dynamic that differed across the different segments.

The improvement in health conditions made it possible for the government to relax its regulations, which boosted the channel's viewership. In this regard, it is important to emphasize that the limits were gradually lifted and never completely, with varying effects on the three consumption segments:

- Due to the lack of selective closures and a significant restoration to full production, blue collar employees at industrial sites saw a significant return to normalcy.
- With a large increase in remote working, the business continued to suffer for white collar professionals because of the shift in working and commuting patterns.

Even while remote work reduced in 2020 compared to previous times, it is still important to keep in mind that work habits significantly changed from the pre-pandemic era, leading to a structural fall in the number of hours spent in the office.

In contrast to 2020, when the pandemic's first wave had a greater impact on the first few months of the year and the volume decline had peaked between 45% and 65% in the major markets compared to 2019, in 2021 the consumption trend remained largely stable, despite being characterized by seasonality-related variations. The volume performance of the OCS/Vending channel has improved (by around 15% more than in 2020), but it has not yet reached pre-pandemic levels. The comparison should, however, be interpreted considering the aforementioned factors: the permanence of constraints and a shift in working practices that resulted in the widespread use of remote working are reflected in a structural decline in market consumption.

Different circumstances are evident when the Group's performance is broken down depending on market penetration. In more developed regions (like Italy and France), the trajectory was in line with the market, and a partial rebound in consumption produced a better outcome than in 2020. More specifically, company lines with a predominantly domestic/small office character and exposure to a less affected consumption group were responsible for Italy's performance rebound (production plants and healthcare facilities).

The markets in question were able to achieve a performance level in 2021 that was comparable to levels reached before the pandemic (Northern Europe), or even better results than in 2019. This was possible because the penetration increase was accompanied by less pronounced restrictions when considering the expanding geographical areas (Romania and Bulgaria).

Due to fewer constraints and their dominant position in the market for production sites, Lavazza Professional firms in Europe, which operate primarily with the *Klix* system in the UK, Germany, and France, also saw an improvement in their financial performance compared to 2020. Despite the rise that was indicated in 2021, performance has not yet reached the levels of 2019.

Due to its wider exposure to white-collar contexts and the pandemic's big impact particularly in the summer and early fall seasons compared to the European scenario, Lavazza Professional North America's performance was nevertheless severely harmed.

5.5. Lavazza Group marketing strategies

Bearing in mind all the previously analyzed market dynamics and considering the highly competitive environment, it is increasingly complex in the global coffee scenario to attract new consumers. Thus, Lavazza Group is continuously in search for new market segments' opportunities to consolidate its international presence and to focus on the new generations to enhance the brand and support future growth.

When applied to actual business scenarios, the principles from the introduction to marketing theory need to be properly considered.

In the specific instance of Lavazza, the firm does not need to increase brand awareness in Italy because of its market positioning and may be assumed that 100% of the public is aware of the brand. As a result, marketing's main goal is to differentiate the product to maintain competitive advantage across all the channels it uses to operate and to produce a distinctive customer consuming experience.

5.5.1. Coffee and tennis: the perfect combination

Lavazza made its debut in the great tennis on the green grass of Wimbledon in 2011, then went to the red of the land of Roland-Garros in 2015. In the same year it also landed on the US Open synthetic, where the champion Andre Agassi was brought as Brand Ambassador in the tournament he won twice. This was crowned by the completion of the Grand Slam in 2016, with the entry to the Australian Open. Until 2020 Lavazza is thus the only brand in any worldwide industry to be a partner of all Grand Slam tournaments.

Lavazza's long-standing commitment to tennis has been confirmed, so much so that he also renewed sponsorships with Roland-Garros and the US Open until 2025, continuing also to be Platinum Partner of the ATP Finals in Turin.

Specifically, at Wimbledon, during the tournament, Lavazza got the exclusive to serve its coffee in 80 dining outlets.

To better integrate with the tradition of the tournament, Lavazza has adopted some very British style notes so that, both in the skyboxes of the central field and in the various bars scattered throughout the sports complex, all coffee cups served by Lavazza have the purple/green Wimbledon logo and the cappuccino is decorated with the symbol of the two rackets.



Figure 5.8, source: <https://www.comunicaffe.it/lavazza-official-sponsor-wimbledon/>



In addition, Lavazza, proof of the importance of the British market for the brand, has opened its first flagship store abroad in central London, just off Regent Street.

Figure

5.9,

source:<https://news.italianfood.net/2021/09/21/lavazza-opens-its-first-flagship-store-in-the-uk/>

With his partnership with Wimbledon Lavazza has given a significant example of what it means to put into play its corporate reputation, built in over one hundred and twenty-five years of careful marketing strategies and hard work, confusing itself with a great sporting event that is a real myth and that, for this, posed not indifferent issues that could turn into negative spillovers.

Indeed, the British market is particularly difficult to conquer, as it is not traditionally prone to coffee consumption.

The strategic choice, which has proved successful, was therefore to link the value of tradition and excellence recognized in Lavazza, now synonymous with international quality coffee, with those equally recognized at Wimbledon as an icon of tennis and the very emblem of the United Kingdom.²⁷

A perfect blend, that between tennis and coffee, which allows to spread the culture of the brand - made of sociality, fair play, service skills and impeccable quality - with important numbers: more than 8 million coffees served during the 10 years of partnership in different tournaments and millions of spectators who were offered, live, the experience of true Italian espresso. But above all, from 2011 onwards, the mission to spread the true culture of Italian coffee around the world through sport, investing in sports personalities that many fans know and love. In addition, recently the Ambassador team has expanded with the young Italian champion Jannik Sinner, central in the sport marketing strategy and fresh winner of his second ATP title - the youngest to have achieved this result - together with Lorenzo Musetti and the Turin-based Lorenzo Sonego. A meeting of Italian excellence in the name of passion - for sport and coffee.

²⁷ <https://www.lfshop.it/il-caffe-nel-tennis-lavazza-e-wimbledon/>

5.5.2. Sustainability: La Reserva de !Tierra! & Nespresso®²⁸ Compatible Capsules

Lavazza's path towards sustainability began in 1998 with the creation of the Lavazza Foundation. This commitment has continued to grow and has seen Lavazza stand out for the promotion and implementation of economic, social, and environmental sustainability projects in favor of coffee producing communities around the world.

Lavazza has also created the "Goal Zero" with the aim of spreading the message of the 17 *Sustainable Development Goals*²⁹ to every key interlocutor of the firm. This complements the four priority sustainability pillars to promote a balance of both social and environmental objectives:

- Goal 5 - Gender equality.
- Goal 8 - Decent work and economic growth.
- Goal 12 - Responsible consumption and production.
- Goal 13 - Act for the climate.

Recently, the Lavazza Group also announced its Roadmap to Zero: the path that will lead it, by 2030, to be carbon neutral, through a plan that includes three lines of action: monitoring and quantification of emissions; continuous processes of efficiency and reduction of impacts; compensation of residual and non-reducible emissions. One of the key milestones in 2030 will be reached thanks to the "Sustainable Packaging Roadmap", a strategic plan that aims, by 2025, to make the entire packaging portfolio reusable, recyclable or compostable.

Lavazza's commitment to procurement is an integrated path of responsibility and business to address the challenges of sustainability in a concrete and innovative way. In 2012-2013 Lavazza enters the EcoVadis network (one of the most important international eco-sustainability rating platforms) and its focus on sustainable purchasing is reflected in initiatives aimed at suppliers and their communities until 2020 when Lavazza decides to accelerate the pace in a complicated period like that of the pandemic. Using the EcoVadis platform, Lavazza was able to evaluate the risk areas in the supply chain and understand how to work best with them in a time of crisis.

The reasons that have pushed Lavazza to a sustainable supply are various; the most important is the support to suppliers, especially medium-sized and small enterprises, so that they understand and contribute to the achievement of global objectives, helping them in continuous improvement, defining KPIs and endorsing goals.



For Lavazza, sustainable innovation, the fight against climate change and the commitment to responsible production and consumption create a virtuous circle: they not only bring benefits for the environment and society but also generate efficiency in production cycles, reduction of wastes, limitation of the uneconomic processes, also to advantage of the business margins.³⁰

Figure 5.10

source:

<https://www.lavazza.it/it/business/la-reserva-de-tierra-collection>

Thus, the Group has relaunched !Tierra!, its ethical brand that embodies the Lavazza Foundation's concept through a selection of

²⁸ Lavazza is not affiliated with, endorsed, or sponsored by Nespresso.

²⁹ <https://www.un.org/development/desa/disabilities/envision2030-goal8.html>

³⁰ <https://resources.ecovadis.com/it/blog/lavazza-a-sustain-2021>

100% organic products. Lavazza "*Tierra!*" is a line of premium coffee blends that embodies the ideal harmony of superior flavor, wellness, and sustainability. The firm demonstrates its dedication to a sustainable coffee culture that respects both people and the environment through this blend, a significant integrated communication effort backed the launch's global implementation.

Furthermore, the new capsules compatible with *Nespresso® Original machines* went on sale in 2021. The selection has been totally redesigned in comparison to the previous offer and now comprises all of the most recognizable Lavazza brands, in addition to the Espresso brand in the new Maestro form (Qualità Oro, Qualità Rossa, Crema e Gusto, !Tierra!, Dek). These aluminum capsules have no CO2 emissions since emissions from the product's whole life cycle are offset by support for the Madre de Dios project in Peru's Amazon Forest, which is run by climate partner *EcoAct*. Beginning in July 2021, the new capsule line was first marketed in Italy before being subsequently introduced to a variety of additional regions, including France, Spain, Sweden, and Greece.³¹



Figure 5.11, Source: <http://www.bellissimo1998.com/it/clienti/lavazza-ncc>

5.5.3. 1895 Coffee Designers by Lavazza

Figure 5.12, source: https://www.1895bylavazza.com/it_IT/factory-1895.html



The Lavazza Group launched a new adventure of innovation and craftsmanship in which Specialty Coffee, coffee excellence, are the protagonists: 1895 Coffee Designers.

1895 is a universe to be discovered, in which a team of coffee designers expertly guides cutting-edge tools to create the distinctive taste that characterizes a unique experience. It is the story of a journey that begins in distant lands and is accomplished today in 7 different cafes: 4 single origins - Cafuné from Brazil, Encantado from Colombia, Kilele from Kenya, Opera

Prima from Yemen; 3 blends - Petal Storm, Hypnotic Fruit and Cocoa Rebel. Precious coffees, enclosed in refined and sustainable packs, 100% recyclable and the result of an intense and prolonged research work that led the 1895 team around the world in search of the rarest and most valuable origins.³²

³¹ Lavazza's Annual Report 2021

³² <https://www.lavazza.it/it/museo-lavazza/calendario-eventi/news/1895-coffee-designers.html>

During past years Lavazza strategically chose to sign numerous partnerships with several Michelin star chefs such as Ferran Adrià, Carlo Cracco, Ernst Knam and Davide Oldani.

Additionally, the Group reinforced its interest in speciality coffee by establishing a partnership with the multi-Michelin-starred Chef Alain Ducasse to publicize and promote this new trend after founding the brand. This alliance was formed based on shared principles of expertise, quality, and tradition, yet the narrative begins from a distance. Giuseppe Lavazza and Alain Ducasse, two business owners, teamed up in 2018 with the goal of creating a new speciality coffee brand. Prior to becoming available to the general public, the new range will be gradually deployed inside the Ducasse Paris network, first targeting a goal of Away From Home consumption and business professionals.

6. International competition and market opportunities

In this chapter market power and price dynamics of coffee industry will be discussed, then Lavazza's major worldwide competitor will be analyzed and the Group internationalization strategy will be introduced.

6.1. Market power and price dynamics in the coffee market

The main trend in the world coffee market has been the dominant position and concentration of market power of multinational roasting companies in the coffee supply chain. In 1998, about two thirds of the world's coffee production was bought by five multinational companies, which consequently owned about 67% of the world market: *Philip Morris* (Kraft Jacob Suchard), *Nestle*, *Procter and Gamble* (P&G), *Sara Lee* and *Tchibo*. The following table shows the worldwide market share of roasted and instant coffee companies in 1998 and 2014. The combined market shares of *Nestle* and *Philip Morris* in 1998 accounted for 49% of the total. This market trend continued until 2002, with *Nestle* and *Kraft Jacob Suchard* further consolidating their market share.³³

Share of global coffee market by roasters (1998 and 2014)

1998			2014		
Roaster	Market share (%)	Cumulative share (%)	Roaster	Market share (%)	Cumulative share (%)
Philip Morris	25	25	Jacobs Douwe Egberts	16	16
Nestle	24	49	Nestle	22	38
Sara Lee	7	56	Green Mountain	5	43
P&G	7	63	Strauss	3	46
Tchibo	6	69	Tchibo	2	48
Others	31	100	Others	52	100

Source: Ponte (2002); Statistica (2016).

³³ <https://academic.oup.com/erae/article/48/4/983/6304257>

After 2002, the roasting market showed a gradual trend in the direction of greater diversity, caused by the emergence of new players and a progressive decrease in already operating actors' market share compared to 1998. The growth of the coffee sector and the geographical spread of consumption have led to the emergence of many small coffee roasters. In addition, small, specialized coffee roasters have born in the USA, capturing a higher market share; this trend has also occurred in other European countries.

It can be noted that despite the gradual trend of market diversification, *Nestle* and *Jacobs Douwe Egberts* retained a combined market share of 38% in 2014, although lower than their share of 49% in 1998.³⁴ Since 2014, *Jacobs Douwe Egberts* has attempted to reassess its market share to counter *Nestle's* market dominance. Despite the huge efforts of *Nestle* and *Jacobs Douwe Egberts* to maintain their market leaders' position, there are signs of market diversification³⁵.

Market concentration can affect marketing systems and have an impact on price transmission dynamics in the coffee value chain. In addition, it could weaken the ability of coffee-producing countries to influence international prices while increasing the capacity of coffee roasters. The influence of importing countries on international prices and the extent to which changes in prices affect retail prices (and vice versa) creates asymmetries of price transmission in the coffee supply chain. In this case, asymmetries can be noted in price transmission in the supply chains of basic agricultural products. Various empirical studies focusing on foodstuffs find that price increases in inputs (factors) are often transmitted more quickly to retail prices than decreases in these prices³⁶. In addition, literature finds in the structure of the market and the presence of uncompetitive behaviour (i.e., market power) the main cause of such price asymmetry³⁷.

However, the risk of provoking a price war may result in oligopolistic firms being averse to lowering their prices because of a fall in the prices of the factors of production; therefore, price adjustment may occur slowly or after a long time. In oligopolistic markets with tacit collusion, oligopolistic companies will use price changes to signal the silent partnership agreement³⁸. When the prices of the productive factors increase, every oligopolistic firm will increase the prices to signal that the collusion will be maintained, however, the response of oligopolistic firms will be slower when it comes to adjusting prices downwards when input prices fall to avoid altering the tacit agreement. This discussion's conclusion prompts the observation that asymmetric price adjustment behavior may be applicable in the context of coffee. If roasters hold the majority of the market, then price rises in the international market would immediately be followed by price increases in the domestic market to protect roasters' margins. However, because roasters can take advantage of their market dominance by maintaining prices above the level of competition, drops in international prices could not have the same effect (i.e., prompt a drop in retail prices).

In general, it cannot be established that high purchasing power of coffee roasters necessarily leads to a high international and retail price margin or even high profit margins for coffee roasters. This is because although the higher purchasing power allows the roasters to exert pressure on the stability of lower international prices, in a free market the roasters can be expected to compete on the roasted coffee market. Moreover, the margin between international and retail prices can be expected to fluctuate, given the volatile nature of coffee prices in general. To determine whether the difference between retail and international pricing has grown over time and whether margin

³⁴ *Statistics, 2016*

³⁵ *Grabs, 2017*

³⁶ *Serra and Goodwin, 2003; Meyer and Von Cramon-Taubadel, 2004; Lass, 2005; McLaughlin, 2006*

³⁷ *Ward, 1982; Bacon, 1991; Borenstein, Cameron and Gilbert, 1997; Peltzman, 2000; Nakamura and Zerom, 2010*

³⁸ *Balke, Brown and Yücel, 1998; Brown and Yücel, 2000*

deviations are asymmetric, the evolution of the price margin has been analyzed using a strong econometric model³⁹ in the paper: *“Coffee price dynamics: an analysis of the retail-international price margin”* by Ghoshray, Atanu, Mohan and Sushil. The analysis of the dynamics of the difference between retail and international coffee prices is the main goal of the analysis. In the study, the focus will be on the retail and international prices of coffee because the first one is a useful indicator of the price charged by coffee's final processors in the retail market while the latter is the price of coffee exported from coffee-producing nations after adding the cost of freight and insurance.

The paper reveals that the trend estimate is statistically insignificant and that any potential underlying trend in the margin is outweighed by the variability in the margin.

In addition, market concentration in the coffee supply chain may allow roasters to carry on having a greater share of profits by maintaining retail prices higher than international ones, thus these players may hold a disproportionate amount of influence, making it probably necessary fostering competition policies. Several actions may be:

- A greater market diversification.
- Promotion of roasting facilities in coffee-producing countries to fill the gap between suppliers and roasters.
- Easier access to financial instruments.

Anyway, also external elements may influence price dynamics, such as:

- Changes in €/USD exchange rate would alter the margin.
- Labour and machinery inputs are different for various forms of coffee.
- Expense of labor (wages) may be offset by technological advancements.

Finally, as *Fitter R. and Kaplinsky R.* argued in their literary output called *“Who gains from product rents as the coffee market becomes more differentiated? A value-chain analysis observed in other agricultural-based value chains”*, since roasters buy homogeneous coffee in the mass market (at roughly similar prices) and varies their offer through the spread of several product to boost their profits, the advantages of differentiated coffee market do not slide off coffee-producing countries. Nevertheless, this viewpoint is not shared by everyone, indeed through the meeting of some niche market demands it is possible to capture higher margins from supply side.

6.2. Roasters and coffee vendors worldwide – benchmarking

With Orbis, the database offered by Bureau van Dijk that contains company data from all over the world, the biggest roasters worldwide have been identified. The NACE Rev.2 number 1083, which is the sector code for the "tea and coffee processing" industry, was used as a filter in the research. In order to focus the search (searching just "coffee" as a primary and secondary activity), as well as the selection of big and very large enterprises, the activity text search was also used. Additionally, only current businesses have been chosen. Bureau van Dijk defines a company as extremely large if at least one of the following criteria is met:

- Sales surpass \$100 million in euros;
- Total assets valuation is higher than 200 million Euros;

³⁹ *Coffee price dynamics: an analysis of the retail-international price margin* - Atanu Ghoshray, Sushil Mohan

- There are more than 1000 employees;
- The firm is listed.

Moreover, A company is considered to be large if at least one of the following conditions is satisfied:

- Revenues are higher than 10 million Euros;
- Total assets valuation is higher than 20 million Euros;
- There are more than 150 employees;
- The firm is not included in the category “very large”.

Since each nation has its own system for keeping track of financial information, comparing data between businesses with operations in several nations would be challenging. As a result, Orbis collects financial data that is "standardized." The averages for the various coffee industry indicators, which were derived by Orbis taking into account the largest firms in the industry, were used as benchmarks to get a broad perspective and to compare this statistics.

%	2012	2013	2014	2015	2016	2017	2018	2019	2020
ROA	11,27	9,67	4,27	3,85	5,79	5,04	5,26	5,15	4,02
ROE	24,83	19,67	8,88	11,52	14,82	14,12	12,33	12,97	9,27
ROCE	15,16	10,21	10,18	11,4	15,97	14,83	11,16	6,98	9,16
EBITDA	8,6	10,27	10,77	10,09	10,17	9,88	9,63	10,43	8,66
EBIT	8,07	8,39	6,69	6,01	5,99	5,78	6,19	5,95	4,96
Profit Margin	5,37	5,98	5,77	4,78	5,2	5,88	6,54	5,66	4,5
Current Ratio	2,46	2,73	2,5	2,26	2,21	2,33	2,51	2,58	3,34

Table 7.1: Average profitability indexes of companies in the coffee industry, source: orbis-bvdinfo.com

Different indices were taken into consideration, of which the description will follow.

- Return on Activities (ROA)

ROA is determined by dividing net income by total assets. ROA measures how well a corporation uses the resources at its disposal to generate profits. A company's ability to create more sales and prospective profits depends on the amount of resources it has amassed. ROA may be raised by growing returns more quickly than assets as economies of scale assist lower costs and increase margins.

- Return on equity (ROE):

ROE measures how well equity can produce profits. As it gauges a company's capacity to generate a return on its equity investments, ROE is a crucial shareholder ratio. It is determined by dividing net profit by equity, and it can rise without additional involvement. A greater base of assets backed by debt may result in more net income, which would cause the ratio to rise.

- Return on Capital Employed (ROCE)

It is a long-term profitability statistic, assesses how well a business utilizes its capital. Measures the return on a firm's capital, or how well a corporation uses its capital to create revenues. It shows the profit made by each dollar or other unit of currency used. EBIT on capital employed is used to compute it.

- Earnings Before Interest and Taxes (EBIT and EBITDA) Depreciation and Amortization

The Earnings Before Interest and Taxes (EBIT and EBITDA) Depreciation and Amortization, commonly known as EBITDA or Gross Operating Margin, is one of the key metrics used to assess a company's cash flows and the state of its books. It enables you to determine whether the business can generate positive earnings from routine activities. It is a measure of an organization's profit before interest, taxes, fees, unusual components, write-downs, and depreciation. As a result, it conveys the actual outcome of the company's operations. Otherwise, EBIT (Earnings Before Interests and Taxes) focuses only on the company's capacity to make profits and disregards either the taxes or the interest paid by it. The phrase "profit before interest and taxes" means exactly that.

- Profit Margin

The net margin, sometimes known as just net margin, gauges how much net income or profit is produced relative to sales. It is the proportion of a company's or business segment's net profits to revenues. A company's net profit margin shows how much of every dollar in revenue it receives is converted into profit. It is determined by dividing net income by total revenues.

- Current Ratio

This liquidity ratio gauges a company's capacity to settle short-term or maturing debts within a 12-month period. In general, an appropriate current ratio is one that is on par with the industry norm or somewhat higher. A current ratio that is below the industry standard can suggest a higher risk of default or bad debt. Similarly, if a company's current ratio is significantly higher than that of its peer group, it suggests that management might not be making the best use of its resources.

Unlike other cash ratios, the current ratio is named current, because it includes all current assets and liabilities (2021; Investopedia)

The analysis was done in conjunction with the value of sales revenues, net profit, and the cost of the items sold, as well as the indices mentioned above (where applicable). As previously indicated, the corporations under study were classified according to their country of origin or (in the case of Nestlé) according to their dominance in the market of the study's host nation, however it is presumed that they also profit from outside markets.

6.2.1. Coffee Vendor: a new business for roasters

As time goes by, the margins for coffee roasters are decreasing more and more, along with a demand for coffee in European countries becoming saturated and stationary, in fact more and more common are mergers and acquisitions in the coffee industry. Indeed, one of Italy's oldest coffee

roasters, Caffè Vergnano, was acquired by Coca-Cola HBC in 2021 for a 30% ownership stake. Coca-Cola HBC is the third-largest bottler of Coca-Cola products worldwide.

Another illustration is Nestlé, which in 2017 acquired the majority of Blue Bottle Coffee, a speciality coffee roaster with operations in both the US and Japan.

Firms are looking for alternative solutions to increase profitability. An example that it will be seen in more detail below, is represented by the Italian company Luigi Lavazza S.p.A. . After noting the great potential of the Chinese coffee market it has signed an agreement with the distribution and catering giant Yum China. The intent is to open a large number of stores so as to, not only spread the culture of Italian espresso in the East, but also differentiate their business. In fact, the company aims to provide consumers with a real consumer experience, thus benefiting from large and new profit margins. That's why below they will be analyzed not only roasters but also coffee vendors.

6.2.2. Starbucks



figure 6.1.: starbucks logo. source: wikipedia.org

Born in Seattle in 1971, Starbucks is a network of coffee cafes and roasters. It is the largest in the industry, with 28,720 outlets in 78 nations, including 12,000 in the United States. Beyond simply selling coffee, the company's major objective is to provide customers with a distinctive experience; this is the secret to its success.

A writer, an English instructor, and three college students founded the first Starbucks location. Because of a concept from CEO Howard Schultz, it became the most well-known brand. Black coffee manufacture was once the company's major line of business, and the only coffees that customers could purchase were free samples from the shop.

Only later did they decide to get the beans directly from the farmers after first purchasing them via Peet's Coffee & Tea. Starbucks has more than 40 locations in the country in 1989. In 2012, it arrived in Europe; in 2018, it reached Italy. stores have now opened in 67 different countries (figure 73). (2021; Wikipedia.org)

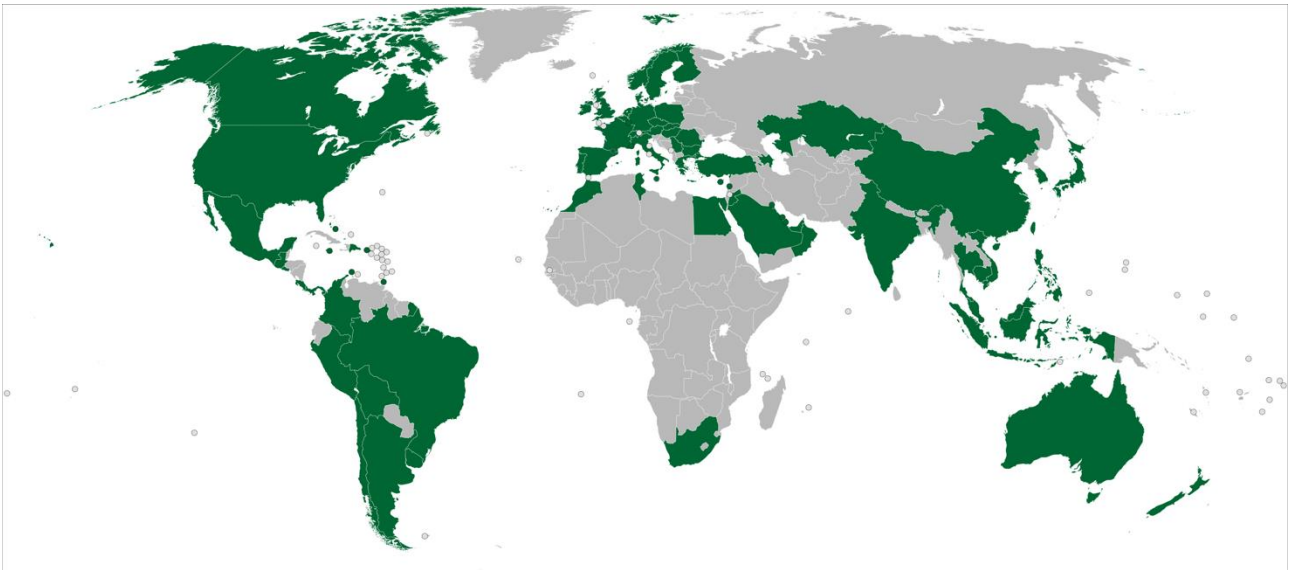
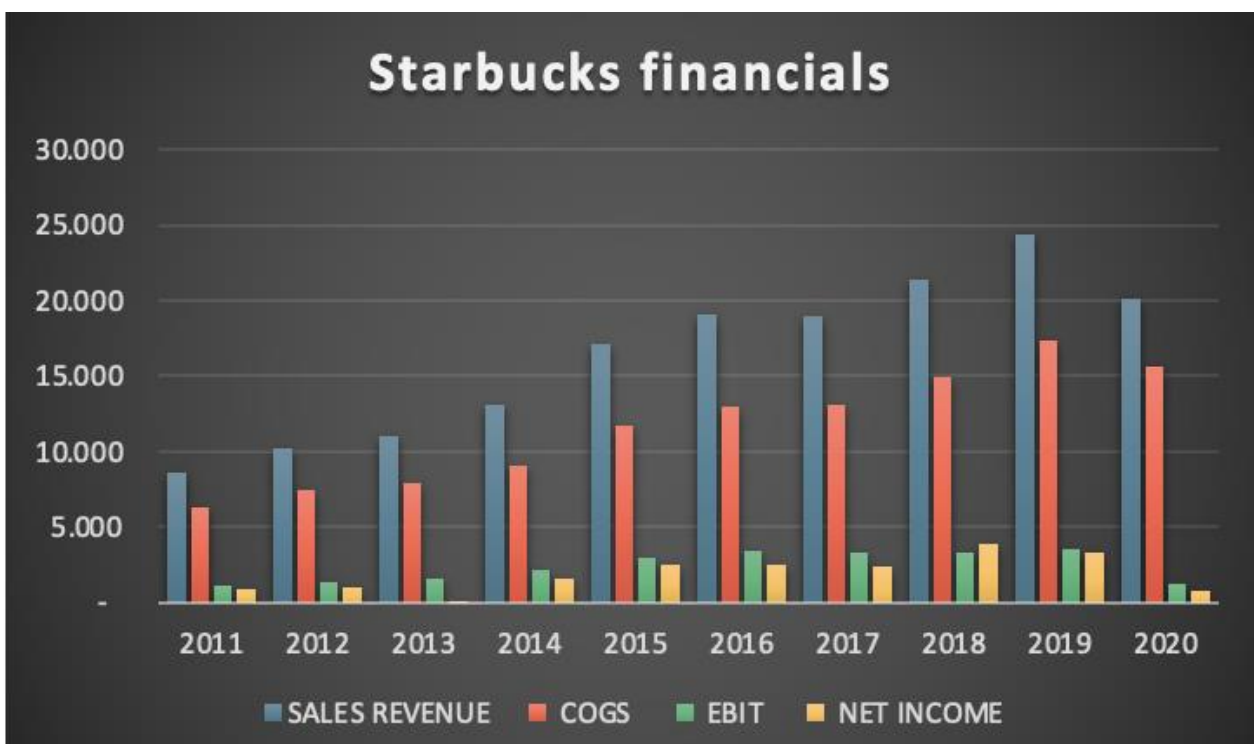


figure 6.2.: countries where there is at least one starbucks shop. source: wikipedia.org

The following figure shows income statement data in order to give readers a sense of the company's progress during the last ten years. It is obvious that Starbucks' expansionary approach has been effective, but additional financial indices like ROA, ROS, ROCE, and ROE can help us better comprehend these facts. It should be noted that ROE can be a challenging indication because a high ROE is not necessarily indicative of a healthy company. The following formula may be used to describe ROE: $ROE = \text{Net Income} / \text{Average Stakeholders' Equity}$.

The outcome is a positive ROE that, at first glance, might appear to communicate a strong financial performance, but this could be misleading information if both the numerator and the denominator are negative (the latter can be negative when accumulated losses exceed the equity of stakeholders). Therefore, it is important to include both halves of the formula while examining this index.



	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
SALES REVENUE	8.665	10.268	11.008	13.071	17.104	19.098	18.962	21.354	24.344	20.087
COGS	6.302	7.502	7.874	9.106	11.745	13.015	13.108	14.952	17.401	15.653
EBIT	1.151	1.381	1.634	2.219	2.991	3.452	3.300	3.288	3.596	1.296
NET INCOME	922	1.070	6	1.643	2.461	2.524	2.443	3.903	3.305	793

figure 6.3: historical data of starbuck's sales revenues, cost of good sold, ebit and net income in million euros. source: orbis-bvd.com

6.2.3. Jacobs Douwe Egberts B.V.



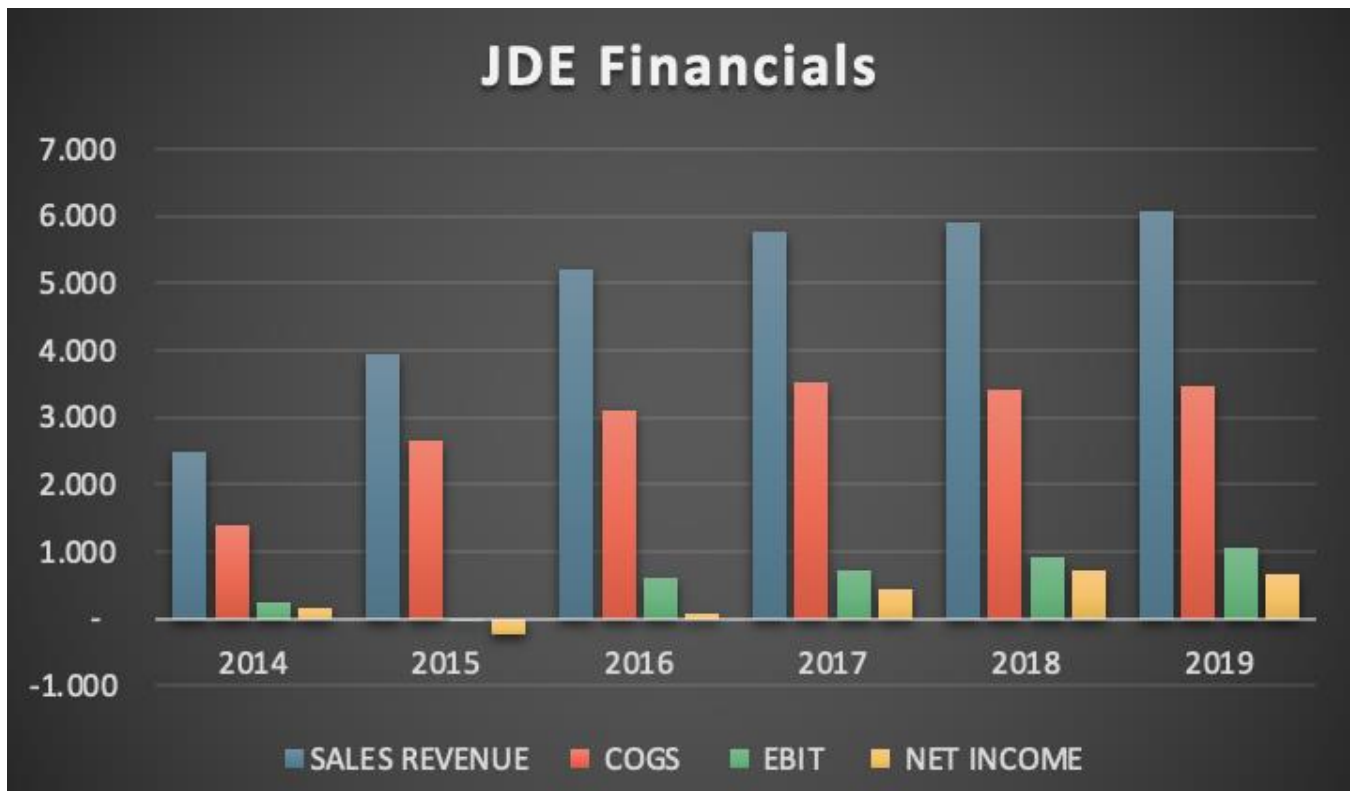
Figure 6.4: JDE logo, source: <https://www.board.com/en/learn/jde-jacobs-douwe-egberts>

In 2015, the coffee section of Mondalez International and Douwe Egberts, which was founded in 1753 as a general grocery store, merged to form Douwe Egberts (an American multinational company in the sector of confectionery, food, holding and beverage and snack). Dutch firm with a public listing.

The business may be traced back to De Witte Os, a general food store that Egbert Douwes established in the Netherlands in 1753. His son converted the store into a company that operated in the coffee, tea, and tobacco industries; nevertheless, the name was only changed to Douwe Egberts in 1925. The company started selling in Belgium, France, Spain, and Denmark in 1948.

The Norwegian coffee manufacturer Kaffehuset Friele was purchased by Douwe Egberts in 2013 as part of the company's expansion plans. In 2014, the company also planned to merge with Mondelez International, which was approved by Margrethe Vestager, the European Commissioner for Competition, on May 5, 2015, subject to a number of conditions, including the sale of the brands Merrild and Carte Noire (which are now owned by Luigi Lavazza S.p.A.), as well as the licensing The business combined with Peet's Coffee in 2020 to establish JDE Peet's, which went public in Amsterdam in May of the same year. The business owns 43 brands, including Café HAG. (2021; Wikipedia.org)

Financial information for 2020 was made public by the company itself, however it is not yet available on Orbis. The biggest issue with utilizing these statistics is that they have not been modified to the Orbis global standard, making it impossible to compare them to earlier years. However, it is clear to see from these figures a decrease in sales revenues and, consequently, a decrease in net income: the Company, like all other Companies, was impacted by the COVID-19 repercussions.



	2014	2015	2016	2017	2018	2019
SALES REVENUE	2.491	3.955	5.206	5.779	5.895	6.072
COGS	1.382	2.666	3.116	3.532	3.408	3.471
EBIT	232 -	23	605	716	915	1.066
NET INCOME	168 -	245	82	431	727	672

figure 6.5: historical data of JDE's sales revenues, cost of good sold, ebit and net income in million euros. source: orbis-bvd.com

6.2.4. Nestlè



Figure 7.6: Nestlè logo, source: <https://www.developmentaid.org/organizations/view/167705/nestle-france>

Henri Nestlé, a pharmacist, created a diet for babies who couldn't be breastfed because of certain intolerances about 1860. Because of the product's ability to save lives, Farine Lactée Henri Nestlé

quickly became popular throughout Europe. Nestlé was formally established in 1866. Nestlé and the Anglo-Swiss Condensed Milk Company amalgamated in 1905.

The business swiftly expanded, with plants in the US, UK, Germany, and Spain. Dairy product demand increased during the First World War, and Nestlé's output doubled before the war's end. When the fighting was over, the dairy industry resumed its regular operations, and most customers switched back to fresh milk. Nestlé changed its business line in response to the environment, reduced its debt, and started to build its chocolate manufacturing operations, which is still the company's second-largest division today. The business's profitability dropped significantly after the outbreak of World War II (from 20 million USD in 1938 to 6 million USD in 1939). In a lot of emerging nations, particularly in Latin America, new industries were constructed.

The United States army was the first to adopt Nescafé, a new product that became immensely popular, as a result of the war. The company's revenues increased once again throughout the battle, due in part to this product. A wave of takeovers began after World War II. Nestlé and Maggi combined in 1947. (maker of condiments and soups). In 1950, Crosse & Blackwell, Glaces Gervais, Findus, Libby's, and Stouffer's all came after it (1973). Additionally, in 1974, a stake was created with L'Oréal, furthering the production's diversity. By acquiring Alcon Laboratories in 1977, Nestlé proceeded to diversify its business beyond the food industry. Carnation, a mammoth in the American food sector, was purchased in 1984.

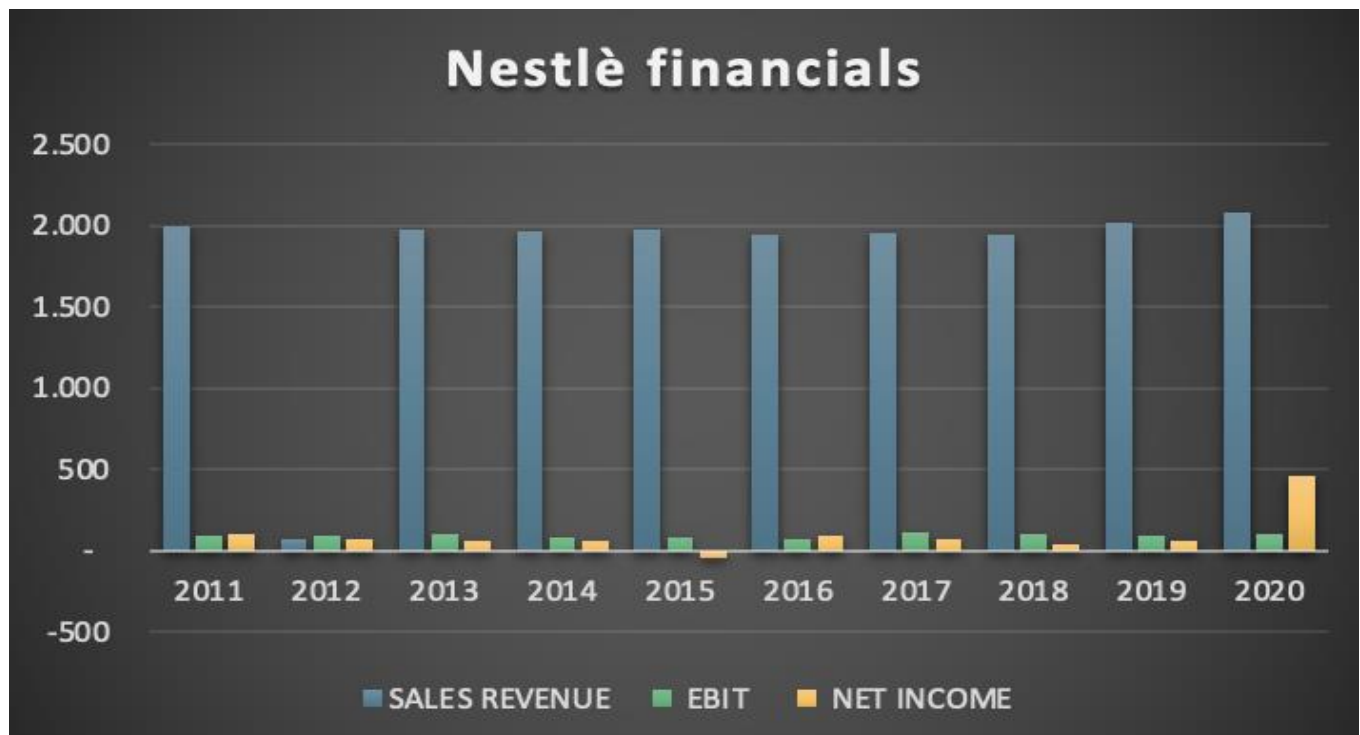
With its Buitoni and Perugina trademarks, Nestlé acquired the Italian food manufacturer Buitoni in March 1988. In 1988, Nestlé became the second-largest maker of snacks in the world, after Mars Inc., after purchasing the English confectionery business Rowntree Mackintosh (owner of several brands in the foreign markets, including Kit Kat, Smarties, Lion, Polo, Fruit Joy, and Quality Street). The rise of the global market gave Nestlé significant new markets in which to operate in the first half of the 1990s. Nestlé bolstered its position in the European cold food market in 1993 by purchasing Italgel from SME (Motta, Antica Gelateria del Corso, Valle degli Orti, and Surgela trademarks) in Italy. New significant purchases were made in the next years, including that of Sanpellegrino (1997), Spillers Petfoods (1998), Ralston Purina (2002), Dreyer's (2002), and Chef America (2002). Nestlé suffered market share losses in the baby food industry in 2005 as a result of the discontinuation of some varieties of powdered milk. With the goal of regaining a dominant position in emerging markets, Nestlé then acquired the Gerber Products Company in 2007 and the food division of the multinational Pfizer in 2012.

In 2016, Nestlé made the decision to spin off its global ice cream business, with the exception of Israel and North America, where it continues to operate through the Dreyer's and Häagen-Dazs divisions. To do this, it partnered with the British company R&R, which operates in the cold branch and is the third-largest producer in the industry, to form Froneri, a joint venture in which each company owns 50% of the shares. The ownership of more than 20 brands, including Crunch, Butterfinger, BabyRuth, 100Grands, Raisinets, Wonka, SweetTarts, Laffy Taffy, and Nerds, went to Ferrero after Nestlé sold its confectionery business in the U.S. market in 2018. Sales for the Nestlé Group were CHF 91.493 billion (€ 80.583 billion) in 2018, while net income rose by 41.6% to CHF 10.1 billion (€ 8.9 billion). In July 2019, Nestlé made the decision to sell its ice cream operations in Israel to Froneri as well, limiting its sector operations to those in American markets. Additionally, Nestlé sold Froneri its U.S. market-held brands (Häagen-Dazs, Dreyer's, Edy's, Outshine, Skinny Cow, and Drumstick) in December 2019.

Nespresso, Nescafé, and Nescafé Dolce Gusto are the three primary Nestlé firms that are active in the coffee industry.

Sales revenues, EBIT, and net income for Nestlé France are shown in figure 7.7. (COGS is not available). The trajectory of sales revenues and net income may both be shown to be rather

constant. Since the financial numbers are consistent with prior years, it appears that the Company handled the pandemic shock of 2020 effectively.



	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
SALES REVENUE	1.997	69	1.973	1.964	1.977	1.944	1.952	1.940	2.016	2.083
EBIT	93	92	101	81	85	70	109	106	89	98
NET INCOME	107	75	64	65	50	90	66	41	58	456

figure 6.7: historical data of Nestlé's sales revenues, ebit and net income in million euros. source: orbis-bv

6.2.5. Luckin Coffee



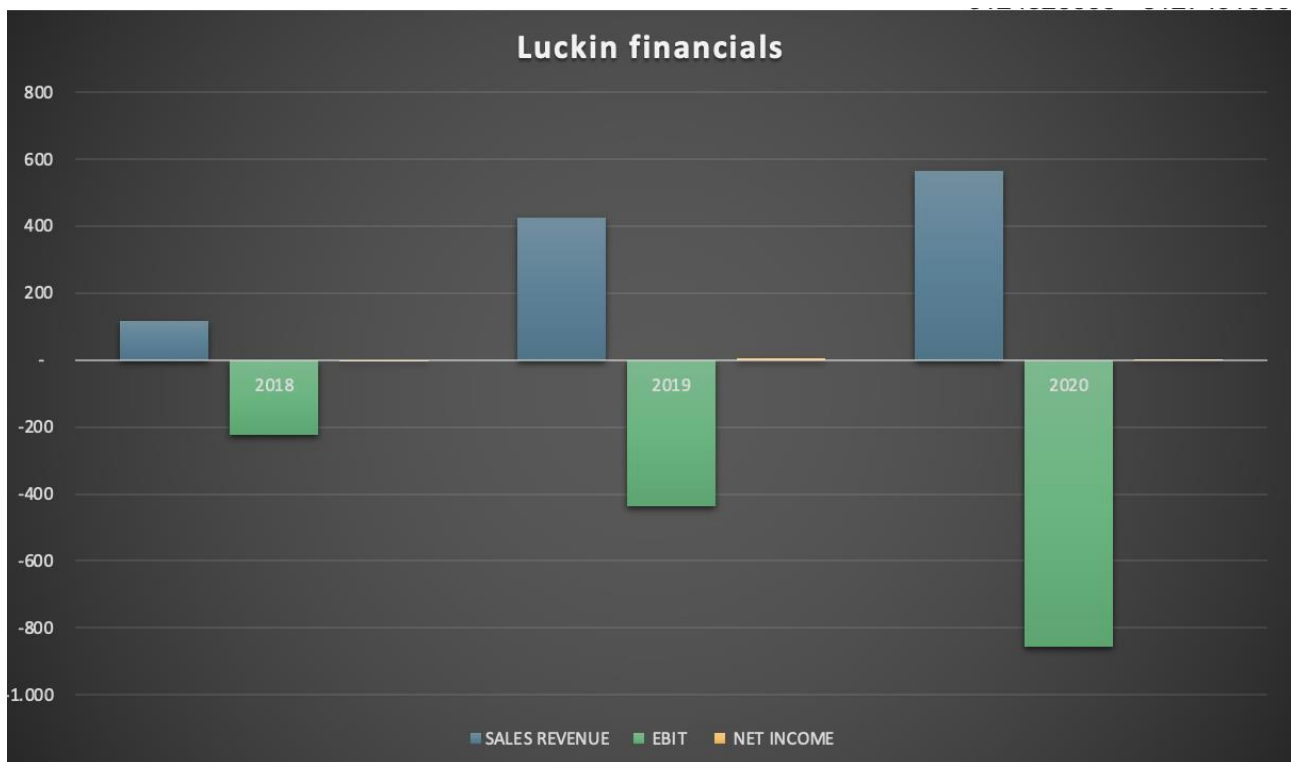
Figure 6.8, source: <https://www.comunicaffe.com/luckin-coffee-announces-approval-of-amendments-to-memorandum-and-articles-of-association/>

Luckin Coffee Inc. is a Chinese coffee company and coffee shop chain in China. It was founded in Beijing in October 2017. Most of its stores are small pick-up points in office buildings and university campuses, which serve for online order collection and delivery. In January 2020 it operated 4,507 stores, surpassing the number of Starbucks cafés in China, while in September 2021 this number rose to 5,671.

Listed since May 2019 at NASDAQ, in April 2020, following an internal investigation, the company itself revealed that it had inflated its 2019 sales revenues by up to 70% through falsified transactions[5]. As a result, the share price collapsed and several executives were dismissed, share trading was also suspended and the company was cancelled by NASDAQ on 29.06.2020, transferring financial transactions to the OTC Pink market .

In February 2021 the company then declared Chapter 15 of the US Bankruptcy Act in order to protect itself from the actions of US shareholders during the reorganisation of its corporate (or corporate) bonds in the Cayman Islands. This move did not have a substantial impact on Luckin Coffee's operations in China, the company continued its operations as usual and all locations remained open. On 13 December 2021 the restructuring of corporate bonds in the Cayman Islands was then approved by a Cayman Islands court. Luckin Coffee also obtained the approval of its restructuring plan from a US court on 17 December 2021. On October 26, 2021, the company also resolved a major collective lawsuit of federal shareholders, making it immune to further shareholder lawsuits with the sole exception of any waiver of collective action.

Luckin Coffee is expected to complete the restructuring plan in early 2022. As already mentioned, the company significantly increased the number of stores from 2019 to 2021 and in September 2021 it managed a total of 5671 stores, has moreover recorded an increase of the revenues almost 106% from the third trimester of 2020 to the third trimester of 2021 and its net loss has been reduced from 75 million dollars in the third trimester of 2019 to 3,6 million dollars in the third trimester of 2021 (of which 2.2 million dollars attributed to the transfer of the Beijing office during the quarter). At the end of the third quarter of 2021, Luckin Coffee recorded cash and cash equivalents of \$793 million.



	2018	2019	2020
SALES REVENUE	118	423	565
EBIT	- 224 -	438 -	857
NET INCOME	- 1	7	3

figure 6.9: historical data of Luckin's sales revenues, ebit and net income in million euros. source: <https://finance.yahoo.com/quote/LKNCY/financials?p=LKNCY>

6.2.6. Costa coffee



Figure 6.10: Costa coffee logo, source: <https://www.aprireinfranchising.it/costa-coffee-franchising-aprire-bar>

Bedfordshire is home to the British coffee business Costa Coffee.

Italian-born Sergio Costa established it in 1971. After Starbucks, it is the second-largest coffee chain worldwide, and it is the biggest in the UK. The company's history begins with a roastery in central London that provided Italian-roasted coffee to nearby eateries and specialty stores. After a few years, his brother Bruno Costa makes an investment in the business as well, and in 1978 he opens his first store in London. However, in 1979, the brothers divorce, and Sergi buys out Bruno's ownership stake in the business. Whitbread, a global conglomerate listed on the London Stock Exchange and the biggest coffee and hotel operator in the nation, purchased the business in 1995 for 23 million pounds, and the firm later became a part of Whitbread. From this point on, there is a significant increase; in that year, the UK had 41 outlets. He also established the first overseas location in Dubai in 1999. In Cardiff, Costa Coffee launched its 1,000th café in 2009. In March 2010, the company paid 36 million pounds to purchase Coffee Heaven, which had 79 locations distributed around Central and Eastern Europe. Costa Coffee also had locations in Australia and New Zealand at the time.

With a 38-million-pound investment in 2017, he relocated the roasting business to Essex, boosting roasting capacity from 11,000 to 45,000 tons of coffee beans annually. 3,400 shops in 31 countries, 2,121 restaurants in the UK, over 6,000 Costa Express vending machines, and an additional 1,280 international locations, 395 of which were in China, were all present as of 2017. The network of shops is acquired by the Coca-Cola group in August 2018 for a price of €4.4 billion.

The goal of Costa Coffee is to offer the greatest hospitality to its patrons through its dining establishments, lodging facilities, and recreation facilities. Chain coffee shops' key challenge is to offer a distinctive experience that is difficult to duplicate, but its motto—"To serve the greatest coffee in authentic Italian style"—is also one of their competitive advantages.

Strenghts

By offering them high-quality goods and a welcoming environment where consumers may pause for a break, Costa Coffee has developed a strong circle of "loyal" patrons. Additionally, revenues increase the longer clients remain. The product selection is widely diverse and includes, among other things, chocolates, beverages, snacks, coffee, tea, sandwiches, cakes, and pastries. It is a very customer-centric brand that offers a variety of coffee that is difficult to reproduce. The business is extremely careful in the procurement and processing of coffee beans in order to provide a high-

quality service. The business only buys products from Rainforest Alliance-certified farms. The effectiveness of the company's service is greatly influenced by all of these minor details. The brand's prominence on the market has undoubtedly expanded with Coca-acquisition Cola's of it in 2019, but more importantly, so has its reputation. A strong parent brand at its side provides the business with excellent growth, sales, and profitability potential.

Weaknesses

The concentration in a certain region of Europe is the key drawback. The majority of the brand's retail locations, along with a few abroad locations, are found in the UK and other European nations. According to this research, it appears that the firm significantly depends on the developed market for the majority of its revenue, which is not fully prudent because the agency would suffer if sales somehow declined in those areas, which may "saturate." Another "barrier" is price; in reality, the brand charges more for its goods than do its smaller rival companies. Additionally, the goods are unhealthy nutritionally since they include a lot of sugar. Given the current popularity of healthy diets, Costa Coffee may lose some of its health-conscious clientele.

Opportunities and Threats

In order to be more competitive, the corporation can think about selling the same high-quality items for less money. Another chance is one of expansion: Costa Coffee should broaden its domestic market by going international. The chance of growth in industrialized nations has increased as a result of globalization, and certain nations' growth rates may be exploited. In addition to offering coffee-making supplies, coffee beans, and other comparable items, the business is anticipated to expand its product line by providing healthier options in the caffeinated sector. The most important threats are given by competitors: some of the main ones are Caffè Nero and Starbucks. Their presence in the market makes it difficult for the company to maintain its position. Furthermore, the global economic recession has reduced the purchasing power of the normal working class, and having a limited income, they prefer cheaper products.



Figure 6.11, source: <https://www.prnewswire.com/news-releases/mccafe-at-home-partners-with-actor-and-producer-mark-consuelos-to-encourage-americans-to-brew-happier-in-2019-300779879.html>

The McDonald's-owned McCafé company has yearly sales of \$14.7 billion and the best profit margin in its sector (12.4%).

It was conceived and introduced in 1993 in Melbourne, Australia.

According to reports, McCafé locations made 15% more money than a typical McDonald's and were the biggest coffee shop brand in Australia and New Zealand in 2003.

In 2002, the brand opened its first location in the United States in Chicago before expanding to 13 other nations. The first McCafé locations debuted in France and Costa Rica in 2004, and the idea was introduced in Italy the following year. In order to boost sales, the brand moved to Japan in 2007, and to attract new consumers who favored conventional coffee shops, it also started serving soups and sandwiches. There are about 1,300 McCafés globally, despite the fact that they make up a relatively minor portion of McDonald's total business plan. In South Africa, where the McDonald's franchise is already well-known and one of the biggest fast-food franchises in the nation, McDonald's introduced its McCafé concept in August 2008. Then, in 2008, Madrid opened. (Wikipedia)

Over the past few decades, McDonald's has developed a powerful brand. Their locations, which are frequently found in busy places (such as highways or retail centers), draw a huge stream of people who visit and dine at their establishments. More in-store visitors are possible thanks to proximity to larger client groups. McDonald's is renowned for its highly standardized procedures, whereby all of its locations employ the same methods and equipment. This not only makes the building of new restaurants quicker and more effective, but also enables McDonald's to provide its customers the same experience in all of its stores across the world.

6.3. Market opportunities and internationalization strategies

Although developed, the European coffee market is always changing. The popularity of specialty coffees, single-serve systems, and ready-to-drink coffees is rising. Industry stakeholders continue to place a high focus on sustainability. Certification is frequently used by buyers and merchants to highlight their environmental initiatives. Direct commerce between producers and European roasters has increased as a result of rising customer demand for value chain transparency and

traceability as well as the expansion of internet marketplaces. The market is also becoming more consolidated as a result of the growing engagement of multinational corporations in traditional coffee trade and roasting, which puts pressure on pricing throughout the whole supply chain.

The current state of the European coffee market may be characterized by waves that began to emerge in the 1960s. The first wave, which began in the 1970s and continued until the 1990s, saw a rise in coffee consumption across Europe. The emergence of chains like Starbucks and Costa Coffee, which started in the mid-1990s in Europe, signaled the beginning of the second wave, which involved a move to higher-quality coffee and the creation of coffee corner locations. Since the middle of 2010, the third wave has been seen. It is characterized by an increase in the demand for high-quality coffees that emphasize certain flavor characteristics — a "coffee like wine" consumer attitude — and direct sourcing, which is typically traceable to the farm level.

A fourth wave, known as the "science of coffee," is presently sweeping the high-end portion of the European coffee industry. Understanding the inherent qualities of the coffee bean and how processing affects flavor in this setting has become vital. Consumer interest in coffee's origin, the history of the product, and the effects of use at the source increased throughout the third and fourth waves of consumption.

In the meantime, the global coffee industry is about to experience its fifth wave, which aims to create a highly profitable, high-quality, customer-centric, and sustainable coffee business that satisfies the wants and demands of today's demanding and informed coffee drinkers.

6.3.1. Growing segments and consumer trends

Over the past ten years, there has been a significant increase in demand for single-serve coffee in Europe, such as coffee capsules and pods. Up to 2026, the European coffee pods and capsules market is anticipated to expand at an average annual rate of 6.8%. The COVID-19 epidemic has had an impact on this rise since it has caused customers to purchase more and more coffee to be drunk at home and has enhanced the popularity of working from home.

Major market participants keep making investments in their single-serve coffees. For instance, Nespresso declared it will spend roughly €145 million in the middle of 2020 to enhance the manufacture of its coffee capsules in Switzerland. In order to accommodate increasing worldwide demand for at-home coffee products during and after the pandemic, JDE Peet's stated in late 2020 that it will raise its coffee capsule manufacturing in France by 60%.

Retailers continue to increase the number of single-serve techniques in their product lines, particularly in Northern and Western Europe. These items' success has been aided by their simplicity of use, effective marketing, and wide range of flavor options. Nespresso, Starbucks, Lavazza, and JDE Peets dominate the European market for pods and capsules.

The development of speciality coffee capsules is a significant trend in the single-serve industry. Although it is still a fairly tiny market, it is expanding quickly as more and more roasters add coffee capsules to their selection. As speciality coffees of various origins and flavors become more popular, the growing popularity of specialty coffee capsules presents intriguing potential for specialty coffee exporters. One significant drawback for the single-serve industry is the harm that coffee capsules bring to the environment. In response, the market has offered solutions and substitutes that are recyclable and compostable. Today's market offers a wide range of ecologically friendly products, like biodegradable coffee and environmentally friendly aluminum capsules.

Ready-to-drink (RTD) coffees represent one of the market categories in Europe that is expanding the quickest. The market is anticipated to expand by 4.8% from 2021 to 2026. This trend is being

driven by RTD coffees' claimed health benefits and convenience as they are being promoted as soda alternatives. RTD coffees include, for example, cold brew and nitrogen brew coffees. The largest company in the RTD market is Coca-Cola, which is followed by Nestlé and Starbucks (which is sold by PepsiCo).⁴¹

6.3.2. Market drivers

Demography

Population increase is one of the key market drivers, which is also influenced by demography. In actuality, more coffee will be drunk as the population increases. The world population increased from 5.7 billion in 1995 to 7.8 billion in 2020, and the UN projects that it will reach 9.73 billion in 2050. This translates to an additional 1.94 billion people. Since the growth in the countries that already consume coffee, i.e., the western developed countries, was only 104 million (+ 8.9%), and according to projections by 2050 it will only increase by 6.6 million (equivalent to 0.34% of the total increase), the growth will primarily affect the less developed countries with low consumption.

From this statistics, it is considered that demographics are not a significant role in the increase in demand, but from this perspective, the variance in coffee demand in response to age is more significant. In actuality, children do not consume coffee, hence the population above the age of 14 strongly correlates with demand.

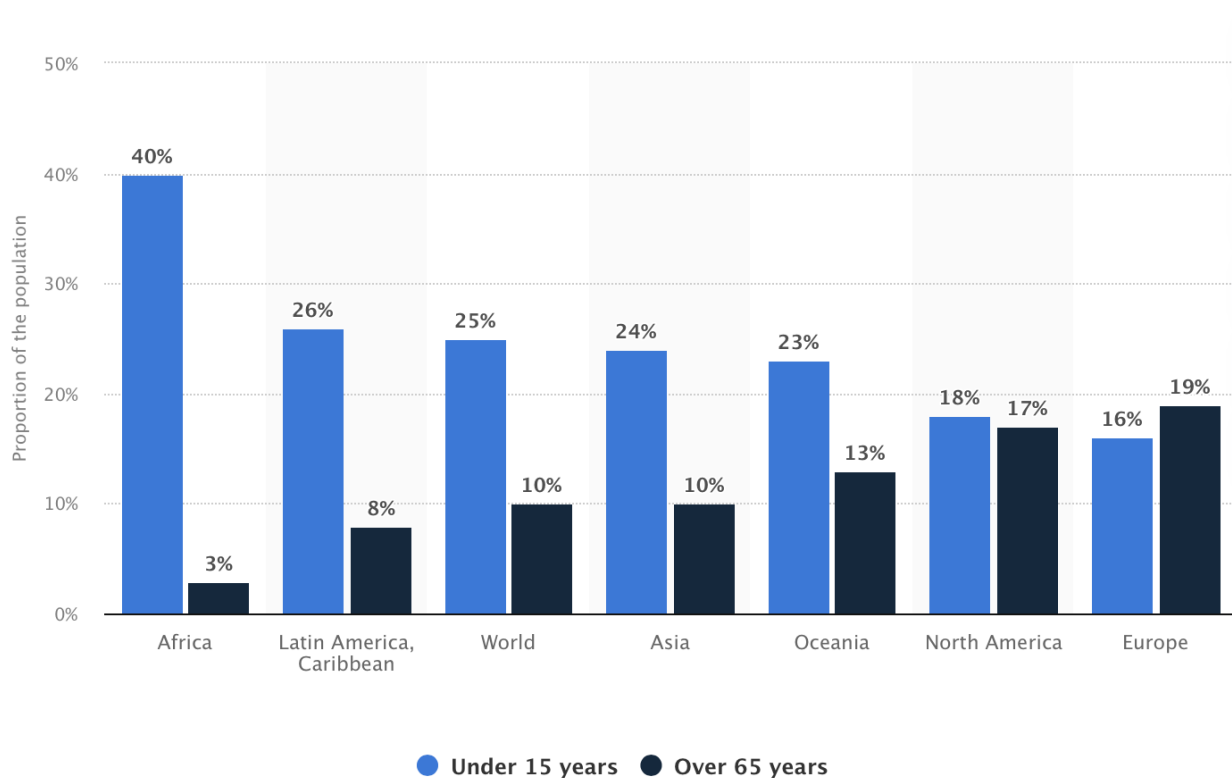


Figure 6.12, Proportion of selected age groups of world population and in regions in 2022, source : <https://www.statista.com/statistics/265759/world-population-by-age-and-region/>

Future coffee demand will unavoidably be shaped by the rising number of adults over the age of 14 worldwide since 1950, both in developed and least developed nations. This trend will last for a very

⁴¹ <https://www.cbi.eu/market-information/coffee/trends>

long time. In 2050, there will be 1.94 billion additional people, 1.87 billion of whom will be over 14, while 23 million will live in developed regions, and 1.85 billion will be from least developed nations. There is no clear parallelism between the growth rates, though, since the world population has increased at a pace of 1.2% per year during the past 20 years while coffee consumption has increased at a rate of 2.2% per year.⁴²

This demonstrates how other variables, in addition to demography, have a significant impact on the demand for coffee.

Culture

There are many cultural factors at play in this occurrence, thus population growth and growing per capita wealth haven't always translated into greater demand for coffee. Similar to how low demand for tea is related to cultural considerations, coffee was not a part of the cultural tradition of "tea users" such as Turkey, Russia, the UK, or Ireland. The demand for coffee has not risen due to either population expansion or economic progress. These nations have a huge effect since a large portion of the world's population resides in them.

It is also true, however, that since 1996, the consumption of coffee has increased significantly in these nations specifically, as opposed to what happened in the countries that previously drank it. Because coffee penetration is still comparatively low in the majority of them, the growth margin is still considerable. Japan, for instance, has never been a coffee user, but since 1950 the beverage has gained popularity and the country currently ranks among the top importers of green coffee in the world with 8 million bags. Indeed, the "second wave" offered new coffee-based beverages like mocaccino or cappuccino, which are sweeter and more pleasant than plain coffee and are therefore simpler for wider groups of first-time coffee drinkers to ingest.

And as a result, the ambience of the location where these beverages were served also becomes more significant: the contemporary cafés that Starbucks created offer a new setting for engaging in social activities.

⁴² According to International Trade Center (ITC 2021)

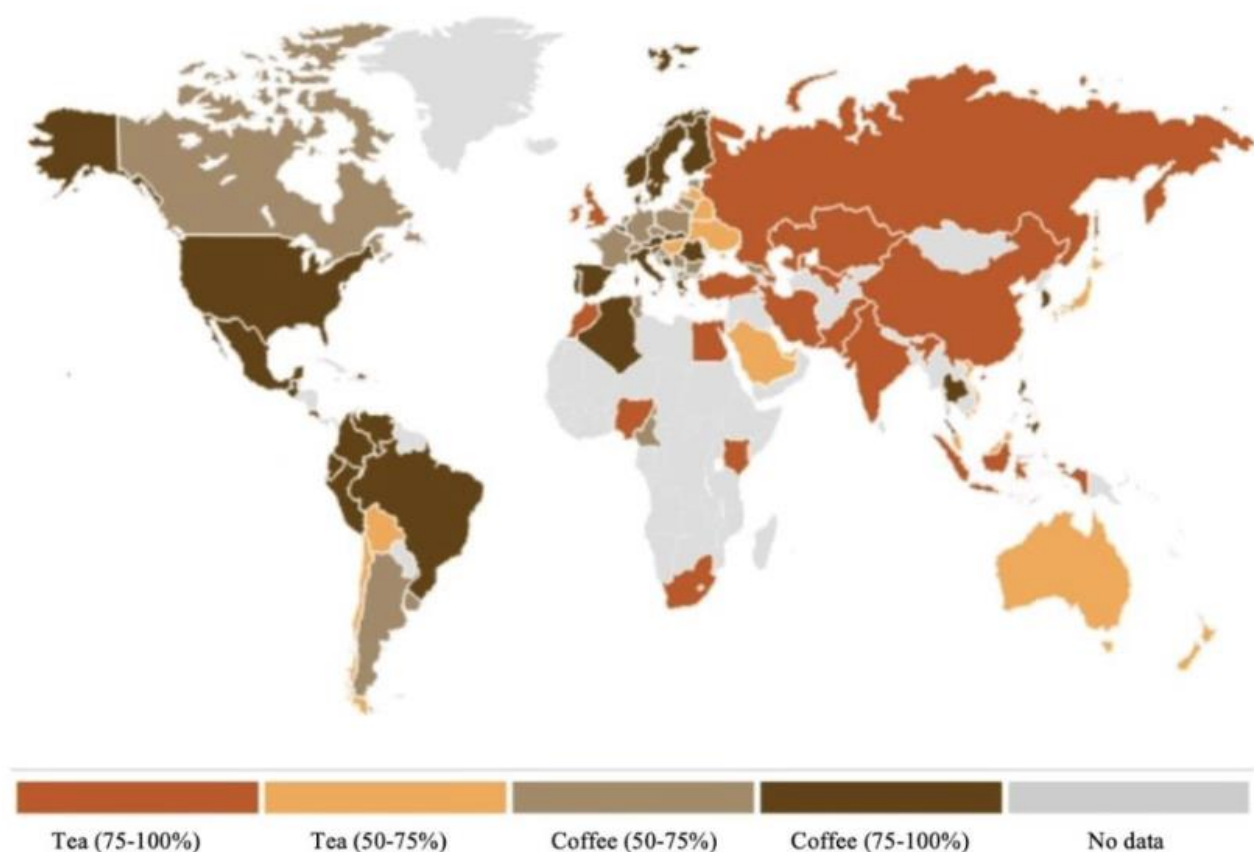


Figure 6.13, Consumption of tea or coffee in percentage, by Country, source: Euromonitor via Comunicaffè

Due to the lifestyle connected with coffee shops, the historical cultural barrier that had prevented widespread use of coffee shops was removed.

Due to these two factors, coffee has started to gain popularity even in nations with low per capita incomes, such as China, Vietnam, Indonesia, Malaysia, Thailand, and Russia. This is especially true among a new population group known as the "new rich," who use coffee as a way to demonstrate their elevated social status. At fact, sipping a cup of coffee or cappuccino in a contemporary coffee shop is frequently seen as a show of distinction and social respect.

New consumer formulas for coffee lovers: the case of gen z

The consumer evolves, knows the raw material better and expects to encounter various options at the bar. The offer widens, also according to the tastes of the new generations, for which the coffee break is becoming more and more an unstable moment. A consumption driven by the fashions spread by social - Tik Tok above all - that can become, an interesting market opportunity.

It probably all started with *Dalgona coffee*, a recipe born in Korea during the pandemic that consists of a whipped and dense foam of instant coffee and sugar placed on top of milk. From there the coffee conquered TikTok, the social media of Gen Z, the teenagers of today. They followed the *Proffee* - union of coffee and protein drink - and a whole host of drinks that have the basis of coffee but often focus more on aesthetics than on the substance, mixing it with vegetable and other milks, ice, syrups, and other drinks.

The latest National Coffee Drinking Trends poll by the NCA (the *US National Coffee Association*) shows that 46% of young Americans aged 18-24 drink coffee regularly, highlighting the growing

popularity of cold coffee, frozen and frozen species in this segment of consumers. Also, it emerged that 76% of young people have the habit of drinking caffeine drinks every day. These are the results of a study coordinated by Prof. Angelo Campanozzi, Professor of the University of Foggia and Director of the Complex Structure of Pediatrics of the Polyclinic "Ospedali Riuniti" of Foggia. From the analysis of the answers given to an anonymous questionnaire by the 1213 adolescents involved, coming from four schools in Foggia, coffee is the most frequently consumed drink with caffeine, followed by soft drinks and energy drinks, also containing caffeine. Researchers point out that excess caffeine can be dangerous for adolescents because it would cause nervousness, sleep disturbance and blood pressure rise.

6.3.3. Countries consumption growth

The share of coffee in conventional markets, which include the United States, Canada, Western Europe, and Japan, has decreased from 72% to 51%, as shown by the graph comparing 1990 and 2016, opening up more and more opportunity for producers in other nations and emerging markets. Given that these are mature markets, the average annual increase in coffee consumption from 2000 to 2019 was 1.8%, and it is projected to be approximately 1% going forward. For poor nations, where consumption is still incredibly low at 0.51 kg per person, it is different. These nations saw an average annual growth rate (CAGR) of 3.7% between 2000 and 2019, which points to their potential for significant influence on the world coffee industry in the years to come.

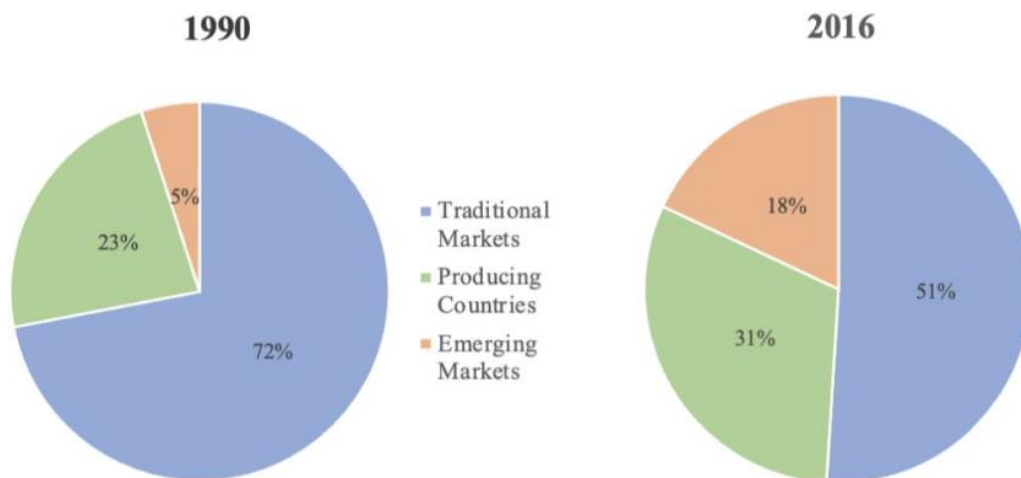


Figure 6.14, Share of world coffee consumption, source ICO

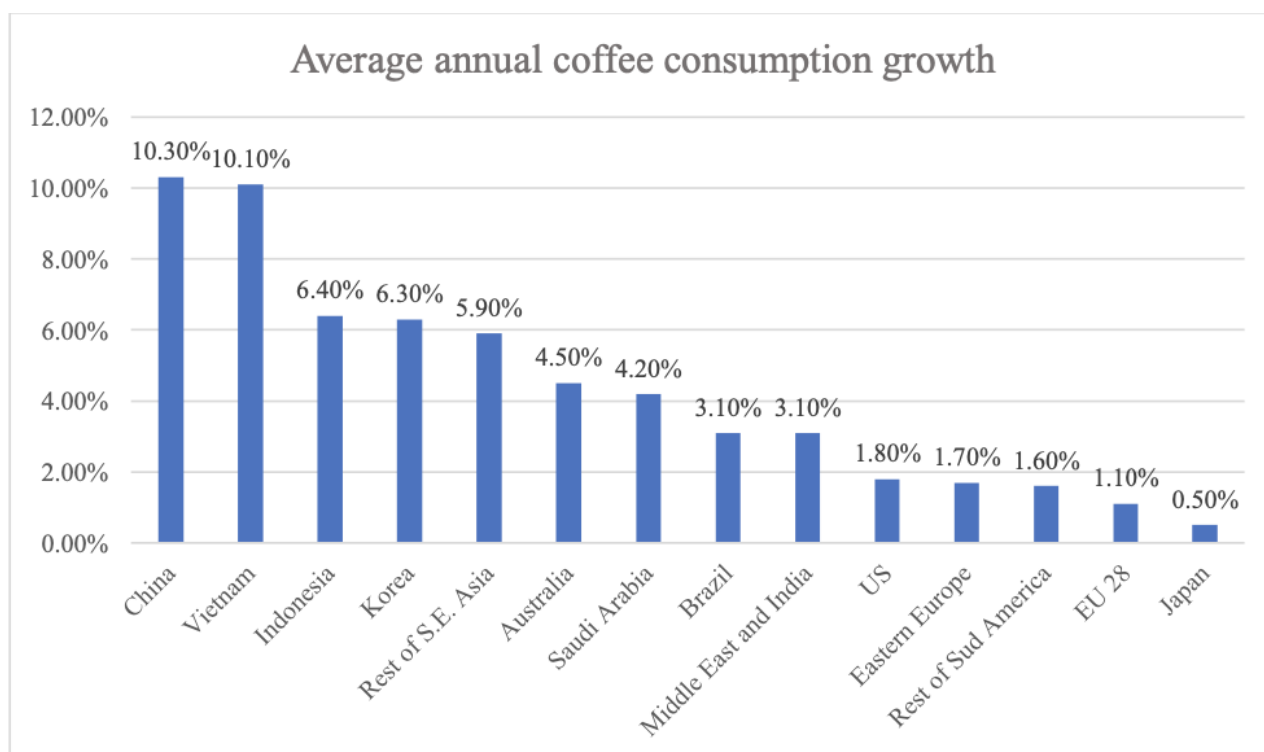


Figure 6.15, Average annual coffee consumption growth, 2005-2019, source: ITC (2021)

The countries with the fastest growth between 2005 and 2019 were China, Vietnam, Indonesia, and the Republic of Korea. In Southeast Asia, coffee consumption increased at an average rate of 6% between 1992 and 2017, which is more than three times the global average (Ico 2018). Additionally, there is a significant level of coffee consumption in the Middle East, where imports of coffee from Saudi Arabia climbed by 42.8% between 2008 and 2019, by 193% in Turkey, and even by 249% in the United Arab Emirates. (ICO, 2019) These nations' strong purchasing power and low alcohol usage offer the ideal environment for the coffee market's rapid expansion. Opportunities for expansion in the coffee industry can also be found in terms of value, so they are not only restricted to volume. When we examine the dynamics of exports of coffee in all of its forms—including green coffee, roasted coffee, and soluble coffee—we see a quadrupling in value from 1991 to 2018—from 8.4 billion dollars in 1991 to 35.6 billions of dollars in 2018. The causes of this significant growth are mostly related to the previously reported phenomena of coffee shops, but also to the sharp increase in sales in the capsule market.

Particularly, fresh coffee's unit value climbed by 1.15 times while that of roasted coffee increased by 1.45 times (International Trade center, 2020). This increase in value indicates that consumers are more prepared to spend a higher price for a higher perceived value, which may result from improved coffee quality, better service (as in the case of the single-portion method), or a better overall coffee shop experience.

This value-driven trend, sometimes known as "premiumization," is expected to endure for some time since customers are becoming more discerning and knowledgeable about the quality of their coffee. The quality of life will also increase as a result of economic growth and rising per capita incomes in many nations, making a cup of coffee more accessible. Even in nations with modest levels of coffee consumption, the majority drinks soluble coffee, which is the beginning of a progression toward more sophisticated consumption.

Consumers tend to favor more sophisticated methods of consumption with greater quality and value as coffee knowledge and maybe purchasing power rise. As was previously indicated,

traditional markets are now mature and there are little opportunities for future expansion. However, due to the shift in consumer preference toward more costly goods, it is anticipated that about half of the worldwide market value increase would come from Western nations. Specialty coffee only accounts for around 8% of the entire market volume (ITC, 2020). Despite this, it is believed that this industry has the most potential for development in the future due to the gradual shift in customer behavior. The substantial expenditures made by some of the major roasting players to acquire businesses, expertise, and information on the speciality market, which would afterwards help to develop it, are another indication of this trend. Even in the conventional market, this tendency has driven demand for greater coffee quality. Long-term, a decline in the quality differential between the standard and specialist markets will result from this.

The emergence of a new market sector that can combine high quality with ever-more-affordable pricing to satisfy the most affluent consumers is the phenomena known as “the fourth wave.” In summary, the demand for coffee is expected to increase and might reach 300 million bags by 2050, pointing to a promising future for the industry (Coffee Barometer 2018).

6.3.4. The “blue ocean” market strategy – Lavazza Group case

W. Chan Kim and Renée Mauborgne, in their book called *“Blue Ocean Strategy”* published in 2004, call the readers’ attention to the similarities between success stories from other industries and the construction of “blue ocean” techniques that provide a strong foundation for unconventional success. The “blue ocean strategy” seeks to match innovation with utility, pricing, and cost positions, in contrast to the “red ocean strategy,” the traditional commercial method of defeating rivals drawn from the military organization. The book claims that both cost reduction and product/service differentiation are possible at the same time rather than mocking the customary decision between the two.

6.3.5. Chinese coffee market

China, the world’s largest economy for purchasing power, is famous for the important consumption of tea, but the choice of coffee is also increasing.

While the Chinese coffee industry may still be young, there is no shortage of innovations and it is not second to Western and Australian-Asian markets. From record auction prices to consumer apps, China is transforming coffee culture.

Coffee in China has always been seen as a symbol of social rank. In the eighties, coffee was an imported product, rare, and highly valued and valued.

It was in the late 1990s, when the first Chinese Starbucks store opened in Beijing, that coffee consumption gradually began to become mainstream. Coffee imports began to increase, with coffee beans and ground coffee imported in greater quantities than soluble coffee. Chinese consumers aimed to create the “café experience” more than the actual consumption of caffeine.

Coffee consumption is still relatively low compared to the US and Europe: in urban areas, consumers drink on average five cups of coffee per capita per year. However, this rate increases annually by 30%. Second-wave chains have a strong market presence. In 2019, there were 3,300 Starbucks stores across the country, with the goal of doubling this number in the next five years. The Chinese company Luckin Coffee opened 525 stores throughout China only nine months after launch. KFC, China’s largest restaurant chain, also serves 100% Arabian coffee.

The Third Wave of coffee, with a slow but passionate pace, is also part of the cultural transformation. Coffee farmers in Yunnan are developing the specialty coffee market.

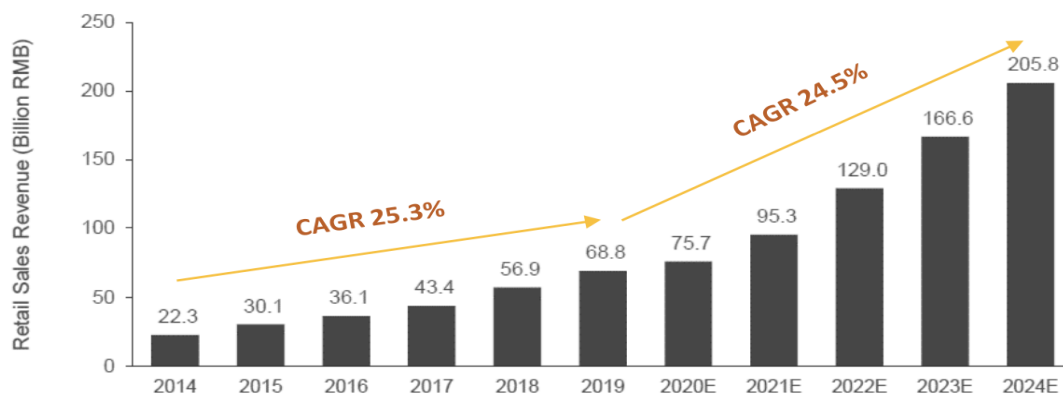
Chinese students are the first consumers of coffee. Consumption rates have risen more rapidly in large cities such as Shanghai and Guangzhou, precisely because young professionals return from studying abroad with the new habit of drinking coffee at bars.

Today, coffee has become common in China compared to the 1980s, but its association with a high-value product remains unchanged.

In green coffee auctions, Chinese coffee roasters are totally willing to pay more per kilo for a high quality batch. In 2017 at the Best of Panama and Cup of Excellence auctions, 37 of the 51 lots on sale were purchased by roasters from East Asia.

At the 2018 Best of Panama Show, an Elida Estate geisha cost \$803, which was a record price at the time. Most of these coffees were purchased from Chinese, Japanese and Taiwanese coffee roasters. It is thanks to the push and status symbol of the East Asian market for specialty coffee, that the American company Katch Coffee has been able to resell a cup of Geisha Elida bought, at a high price of 75\$ per cup.

Chinese coffee market



Source : Frost & Sullivan 2020

The **Coffee/Bar** segment has increased a lot in the last years (+13,5% in POS CAGR 2017-19), above all thanks to the **global & local chains**

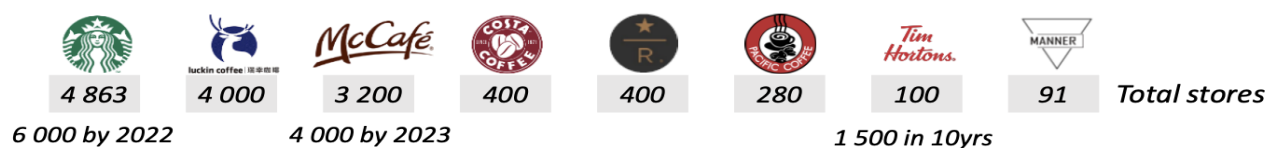


Figure 6.16, source: Yum China

As it can be observable in the figure 7.15, the coffeeshops segment is constantly growing (+25,4% CAGR 2017-2020), indeed first movers as Starbucks, Luckin Coffee and McCafé during 2019 already had a large number of stores.

6.3.6. Coffee apps and consumer experience transformation

The world has revised payment methods after Covid-19, when for several years China has been using the APP mode for transactions.

70% of Starbucks customers in China order through their APP, while Luckin Coffee refuses cash and allows consumers to order and pay exclusively with WeChat, the largest Chinese social network application, or using the "coffee wallet" formulated just for their chain.

Home delivery services are commonly used in China: in Beijing there are about 1.8 million deliveries every day. Many transactions of Luckin Coffee are made for home delivery, or for the pick-up service, where the shop sends a message directly to the consumer when the drink is ready.

The world is just starting to see how COVID-19 will affect the coffee industry. China certainly has an advantage thanks to the technologies already adopted, the "contactless" service and the efficient customer support.

While the Chinese specialty industry is booming, China has immense potential to influence the global coffee industry.⁴³

6.3.7. Yum China

The largest restaurant chain in China is Yum China Holdings, Inc. (the "Company" or "Yum China"; NYSE: YUMC and HKEX: 9987), which strives to make every life taste delicious. From one restaurant in 1987 to more than 12,000 restaurants now, the Company has spread across all provinces and autonomous regions of mainland China, in more than 1,700 cities and towns.

On November 1st, 2016, Yum China was listed as a standalone publicly traded business on the NYSE. On September 10, 2020, the Company was secondary listed on the HKEX. The company was dual main listed on the NYSE and the HKEX as of October 24, 2022.



Figure 6.17, Yum China's brands, source: <https://yumchinaholdingsinc.gcs-web.com>

From the figure 7.16 it is observable that the firm currently hold worldwide well known brands as KFC, Pizza Hut, and Taco Bell. Furthermore, Yum China has the sole right to run and sublicense in China as a result of the split from Yum! Brands, and it now directly controls the Little Sheep and Huang Ji Huang concepts. Additionally, the company collaborates with Lavazza to research and expand the concept of Lavazza coffee shops in China.

There was the development into a top restaurant company in China over the past three decades, not just in terms of footprint but also in terms of brand recognition, social media engagement, national supply chain management, product quality, and innovation. The foundation of the company is its workforce, and the seasoned management team continues to cultivate a culture that is built on vigor, opportunity, and fun.

⁴³ <https://www.victoriaarduino.com/news/come-comprendere-il-mercato-cinese-del-caffe/>

By creating menus that suit regional preferences in addition to featuring international classics like KFC's Original Recipe chicken, it was successfully cultivate strong customer loyalty. Everyone of its brands has its own original menu items, many of which were created in China, as well as particular formulas and spices that enable it to produce delicious meals quickly and with a variety of high-quality ingredients. Indeed, the brands are part of everyday life and popular culture in China thanks to decades of accumulated customer knowledge and loyalty.

By increasing the in-store experience, boosting mobile connection, launching cutting-edge new items, and consistently offering value, the company is committed to meeting the changing demands of its consumers. In addition, it also continues to be committed to maximizing shareholder value through boosting unit economics, brand relevance, and sales and profitability across portfolio of brands. Yum China is ideally positioned for long-term growth with a rapidly expanding consumer class and rising urbanization.

6.3.8. The joint venture between Lavazza Group & Yum China

In April 2020, Yum China and Lavazza set up a joint venture to jointly manage Lavazza's coffee operations in China. After the opening in Shanghai of the first coffee flagship store outside Italy, Lavazza quickly won the favor of consumers with its high quality coffee, innovative cuisine and the engaging Italian cultural atmosphere.

By addressing the Chinese market, Lavazza has also accelerated the opening speed of stores in China. As of June 30 of 2020, the company has opened 14 stores in Shanghai; the first in Hangzhou was opened in early August and the number of Lavazza stores in the second quarter has tripled. Currently, Lavazza has expanded to more than 20 stores in China and aims to sell 130 million cups of coffee.

The goal is to open 1,000 stores by 2025. The two parties will jointly inject \$200 million into the joint venture to provide funding for future development. In addition, the collaboration will also become an exclusive distributor of Lavazza in mainland China, introducing more products from the brand's product portfolio to the international market.

International marketing and intra-sectoral collaboration

The brand is present on all major Chinese platforms, from Wechat to Little Red Book to Douyin, the Chinese Tik Tok, so as to have a pervasive presence in the ecosystem, including many touchpoints. Since the opening of the first Lavazza store in Beijing, there has been a constant flow of customers.

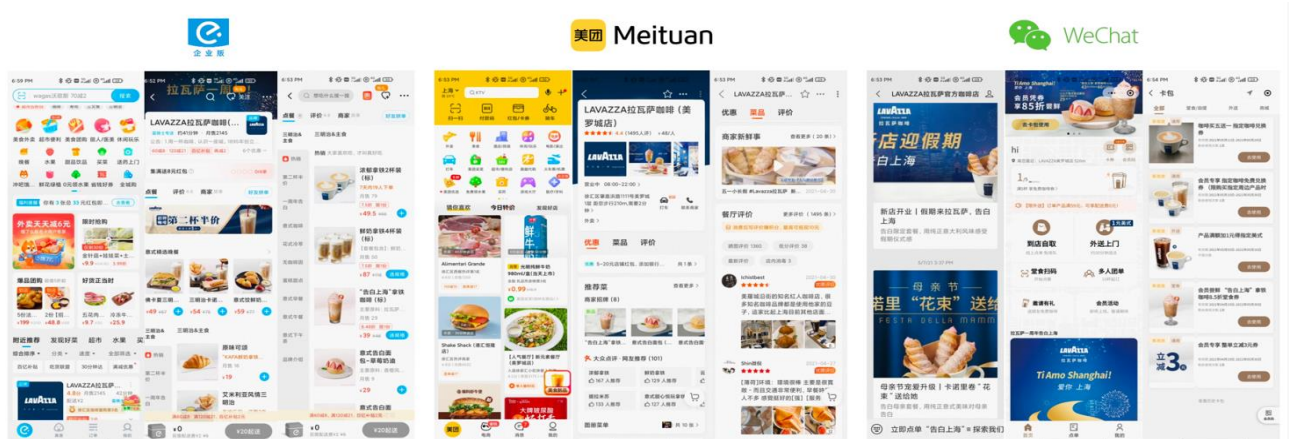


Figure 6.18: Online to offline delivery platforms, source: Lavazza

Success depends on the wide variety of products, the attention given to their design to adapt to Chinese customers. The Beijing store also launched a cold orange steam infusion specifically for the market.



Figure 6.19, top coffee drink sold in China, source: Lavazza

From the point of view of price and product category, the positioning of the Lavazza brand is relatively high, with a unit price per customer of over 50 yuan, and its products cover different categories such as coffee, desserts, and cocktails. Moreover, the combination of liqueurs and coffee brings to China a characteristic combination of Italian coffee; Although Lavazza is an established Italian coffee company, it is particularly good in marketing. Product side promotes the brand by launching new categories and collaborations with catering and gourmet experts.

Lavazza also collaborates with designers to create some specific models for branded gadgets. In addition, the company also collaborates with sports projects as it was discussed in the previous chapter.

Lavazza is present on the main Chinese social channels, where it integrates an omnichannel strategy that allows to attract Chinese consumers both online and offline. The goal of Lavazza marketing is to provide customers with an immersive experience in Italian culture. Consequently, its products aim to create a union between Italian and Chinese characteristics.

The stores have also been designed to meet this objective. The Lavazza flagship store in Shanghai is like a mini espresso museum. From the tasting of coffee beans to the history of the first Espresso machine, consumers have a panoramic view of the entire Italian coffee culture.

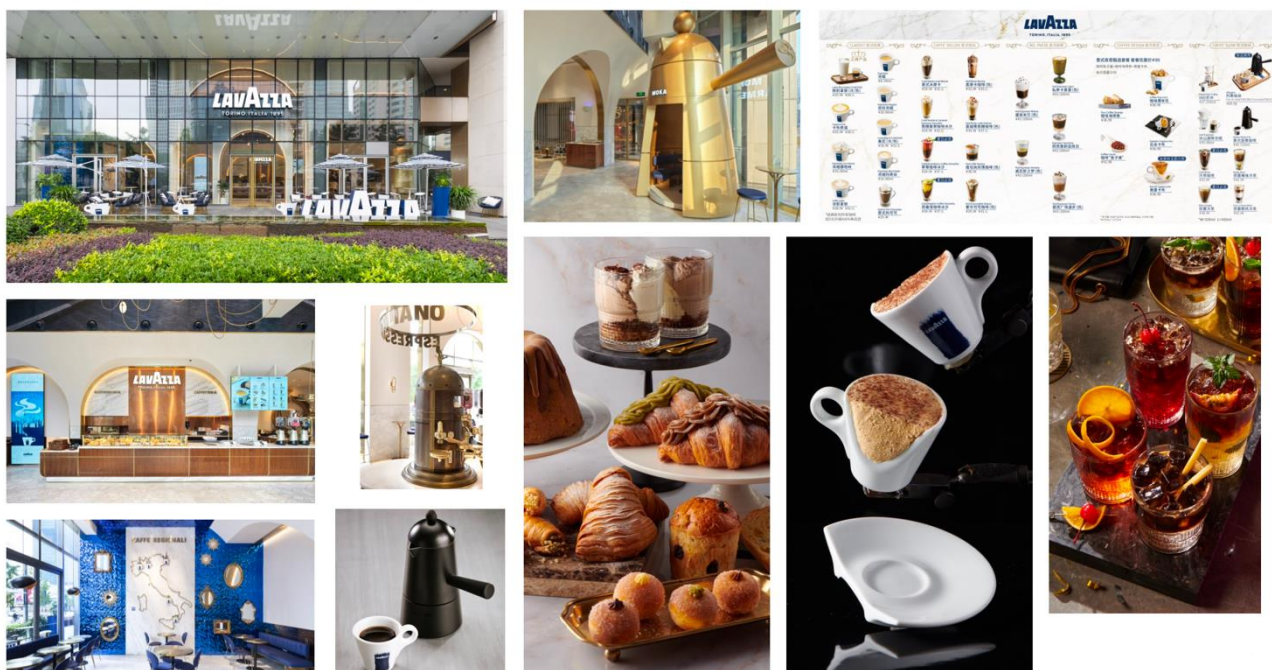


Figure 6.20, Shanghai Flagship store & products

6.3.9. Coffee market prospects in China

In China, the penetration rate of coffee is still very low.

The soluble coffee segment holds a significant share, especially for its convenience. In addition, rising household spending, changing lifestyles, and acceptance of Western culture trends by middle-class consumers have contributed to increasing demand for instant coffee across the country.

The Chinese coffee market is highly competitive, with a strong presence of local and global players operating throughout the country. Therefore, in order to support their positions in the market, active actors are bringing innovation in packaging and product offerings to meet consumers' growing coffee demand. Social media marketing is critical to penetrating the market and attracting more customers, but it needs to be well thought out and designed.

In conclusion, nowadays it is worldwide known the huge potential of coffee market in China, thus attracting several players that are enhancing the competition in the sector. The attractiveness of the Country is partially justified by demographic reasons, during 2021 China reached 1,4 billions of residents, thus it is easily to understand that a firm may gain huge profit margins even just meeting the needs of a small niche of consumers. Finally, as previously said, Chinese consumers seem ready to change their habits facing a substitution effect of tea for coffee, especially due to the will of westernization that they are experiencing. According to the latest data, the size of the Chinese coffee market will increase up to 1 trillion yuan by 2025; in recent years, coffee consumption in China has reached 15%. The rapid growth rate of 20% is far above the global average growth rate of 2% and, from the point of view of the annual consumption of coffee per capita, there is still considerable room for growth in the Chinese market.⁴⁴

⁴⁴ <https://valuechina.net/2021/12/06/il-caffe-diventa-sempre-piu-popolare-in-cina-il-caso-lavazza/>

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