



The Illy case: preliminary study

“La cultura del caffè”

The Espresso Culture, in the Tea Country

The purpose of this paper is to define and analyze one of the most known Italian “espresso” brand: Illycaffè. We start with the history of a family business, mainly focusing on those features that have determined its current success.

Then, we take into account the global coffee market and the social trends to understand how Illy positions in it.

We concentrate so on the Chinese market which will be our area of interest in order to develop the Integrated Marketing Communication Plan.

In order to get a complete picture, we identify Illy’s actual audience that ranges from the home consumption, the bar distribution to Ho.Re.Ca. (Hotel, Restaurant and Catering).

On the base of our analysis we want to show the opportunities (in terms of conditions that must be exploited) and the great challenge that lays at the base of such a market: two completely different traditions that get in touch, the Western culture encounters the Eastern one.

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by

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*We are completely satisfied with our results
and for the presence reached in 130 Country all over
the world with 70.000 served customer.
We will continue in our way of internationalization
of the culture and consumption of Italian coffee in the world
as well as making the Illy brand more and more global.*



Andrea Illy - Illycaffè CEO
Trieste, 11th of May 2006

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1. The Illycaffè

1.1 Origin of a Successful Brand

The history of Illycaffè is inextricably linked to the lives of the company's founder, Francesco Illy, his family and the city of Trieste (Italy). Francesco, a man of Hungarian origin, came to Trieste during World War I as an officer in the Austro-Hungarian army. Trieste was a cultural and commercial pole: it was the most important seaport of the empire where all the commodities, such as coffee and cocoa, had to pass through before reaching their final destinations, the Vienna or Budapest Cafés.



From left: Francesco, Anna, Ernesto, Riccardo, Andrea and Anna Illy

After the war, he remained in Trieste that was under the Italian control. In 1933, he started a business in the cocoa and coffee sector and later, he decided to focus exclusively on coffee.

Therefore, Illycaffè was officially born. From the beginning, Francesco Illy revealed to be a brilliant inventor, determined to achieve the highest possible level of quality from his product. In the year 1935, he invented the first automatic coffee machine – a device that revolutionized the way people made coffee - replacing steam with compressed air: the *Illetta*, the predecessor of today's espresso machines.

He also devised a new packaging system for preserving coffee in which the cans were filled with inert gases instead of air: pressurization. Thanks to this new packaging system, Illycaffè was soon "exported" outside the immediate Triestine area, and was eventually sold all over Italy. After the World War II, the control of the company passed to Ernesto Illy, the son of the founder, who started a research laboratory that became the source of numerous new inventions and patents.

The success of Illycaffè is explained by the know-how and the deep passion for the art and culture of coffee that represent the driving forces of a company that through its coffee is able to explore different dimensions and make them fundamental parts of Illy experience.

1.2 Illy: "La cultura del caffè"

1.2.1. The company

Illycaffè history tells us a lot about its corporate entrepreneurial and proactive spirit that enables the company to be recognized on a global level.

In fact, Illycaffè has continued playing a fundamental role in the coffee history thanks to its dedication to the Italian espresso over the past 70 years.

By combining the Italian tradition with advanced technologies, Illy is able to create a unique and satisfying coffee experience that is reflected in every cup of espresso.

Illycaffè sells a distinct blend of 100 percent Arabica coffee that is available in the market of approximately 130 countries, with a turnover of 227 Mio. of Euro (+11% than 2004). The company's operations, along with its only roasting, processing and packaging facilities are located in Trieste.

The internationality that characterises the company is given by the fact that the Illy group is made up of several subsidiaries located in North America, France, Germany, Spain and Benelux.

1.2.2 Values, mission and vision

Illycaffè is devoted to the quality of coffee. The passion for quality is a fundamental value for Illy. This becomes evident when we consider all the company's strategies and production processes that are based and developed on such a principle. Therefore, we can assess that this company is mainly driven by a deep vocation for quality which is translated into a strategy that is characterized by customer orientation, attention towards collaborators, partnerships with suppliers and social engagement.

Illy's mission is translated in the company's daily commitment to produce the best possible coffee blend:

“to delight consumers all over the world with an excellent coffee and an extraordinary experience that involves both senses and spirit. To contribute to the development of the global espresso market and culture in a unique way from the coffee bean to the cup, where the best product is finally combined with know-how and a continually changing tradition”¹.

The “quality principle” of Illy is focused on coffee but simultaneously, it encompasses many different dimensions: the quality of the experience, the quality of the process, the quality of life not only for the consumer but also for those that play a role in the production and commercialization phases. This is clearly reflected in the company's vision:

“To become the coffee myth: to become a moment of joy during the day and thanks to that to grow worldwide in order to satisfy all people that love the quality of life.

To be a leader in quality and a leader in the attention given towards suppliers, to collaborators and to communities”².

1.3 Beyond the “demitasse”

Illy coffee concept develops in three main dimensions: the innovation attitude, the search for the optimal convivial place, and the creation of an emotional experience around the coffee ritual by encompassing art and design.

1.3.1 Innovation is an habit

Illycaffè is a company which is innovation oriented. This is shown by its strong commitment in the research for new processes and instruments aimed at offering a coffee that is near as excellent.

¹ Source: Website www.illy.com
last visit 29/05/06

² Ibidem

Behind the pleasure of sipping a cup of coffee, there is a complex technology which is required in every stage of the process: the choice of the best coffee lots, the selection of the beans, blending, and the continuous monitoring on roasting, packaging and storage of the finished product.

To gain such an objective, Illy relies on its Research & Technological Development department (RTD) that studies coffee on a deeper level.

Another relevant project started by the company is The University of Coffee (in Trieste and Brazil). It is a training centre of excellence with the aim of spreading the culture of coffee and the Italian Espresso around the globe in the most far-reaching and complete way. The purpose of this University is to transmit this unique knowledge to baristas and disseminate the culture of coffee by means of a real complete training.

1.3.2 Illy bar concept

Illy bar concept (IBC) is an innovative formula that demonstrates the great attention that the company gives to retailers. IBC has been proposed to bar managers who are interested in opening or renovating a bar under the sign of quality and design. This kind of initiative aims at revitalizing a market that is actually showing a decline and, simultaneously, at pursuing the constant request for new ideas. All this responds to the never completely satisfied need to offer consumers innovative ways to prepare and sip a cup coffee.

Training courses at the University of Coffee in Trieste are held for all these new “Illy members” with the clear intention of making them integrated members of the company. As a consequence, a close collaboration between the bar managers and Illycaffè is established.

1.3.3 Illy and Art

Illy aims at adding value to the ritual of sipping a cup of coffee by creating a world of experiences. The artistic creation is part of this world that wants to join the sensorial pleasure of having an Espresso with the power of art. Initially, this experience was translated in the well-known white Espresso cup. It was the year 1990 when Matteo Thun was asked by Illycaffè to design an exclusively shaped cup and when the identity of the company started to emerge.



On the bottom of each cup, every collection carries the artist's signature and a sequential number certifying the limited numerical production.

Since the birth of its collection in 1992, Illy has entrusted its white cups by relying on the creative minds of talented contemporary artists.

The Illy's image is also reflected by the simple red square with the white writing designed in 1996 by the contemporary artist, James Rosenquist and in the easy open espresso package (the 250g tin) presented in 2001.

The innovative design responds not only aesthetics reasons but also the need for preserving the taste of coffee. The red colour of the logo, the white espresso cup, and the lustre of metal, together with Illy's linear design, add value to its content making the brand recognizable.

The company's commitment in the field of arts is shown by the different collaborations initiated by Illy. Among them *La Biennale di Venezia* with the 50th International Art Exhibition.

All these initiatives reinforce the idea of drinking coffee as an aesthetic, sensory experience with its own set of rituals that can be shared with others or alone. Moreover, we can notice that the principles of quality and distinctiveness are not only the starting point but also the pillars on which every Illy's activity is thought and developed.

Illy enhances the moment of drinking coffee by joining the artistic expression with the most common objects and the coffee ritual with a real experience. Everything, starting from its packaging and its machines to its bars, permeates this experience.

At this point, we can assert that Illy is not only a company that offers its customers a simple cup of coffee; it goes beyond. Quality, innovation, distinctiveness, and openness are the key words that better explain what Illy stands for.

The great intuition of this company lays in the way it has positioned in the market. Quality is the foundation for every activity but it would not be enough to obtain such a differentiation in relation to competitors. In fact, Illy has been able to propose this product in a completely innovative way by creating a world around coffee while not forgetting the importance of the Espresso tradition. Coffee reveals to be more than a simple marketable product since it offers that world of experiences that cannot be merely sold through a simple transaction but exclusively experienced while drinking a cup of Illy coffee. In this and in innovation lay the real added value that makes Illy different from its competitors.

2. The Market and the Chinese Challenge

2.1 The Coffee Market

After oil, coffee is the most traded commodity on worldwide markets. The largest consuming regions are the European Union, the United States, and Japan.

The coffee industry can be broken into two categories on the base of consumption: mass-marketed and specialty coffee. The four largest companies, Procter&Gamble, Philip Morris, Nestlé, and Sara Lee operate most exclusively on the mass-marketed segment. Starbucks, on the other hand, counts among the specialty retailers.

The majority of the worldwide coffee consumption is made up of two coffee species: coffee Arabica and Robusta. Experts claim that the Robusta beans have an inferior quality than the Arabica beans since they are inferior in flavour and easier to grow. For all these reasons, these beans tend to command a much lower price on the market. As a result, Robusta beans are mainly used in the instant and mass-produced coffee and sold in large supermarket stores. Conversely, the Arabica beans are destined above all for specialty coffee.

One of the most remarkable characteristic of the coffee market is the absence of governance. The coffee industry has been transformed from a managed market, in which governments played an active role by setting export quotas, to a free-market system in which anyone can participate and in which the market itself sets the coffee price.

On the production side, the situation has revealed to be of huge concern because of overproduction. The result is that more coffee is being produced and lower quality coffee traded, leading to a sharp price fall for farmers.

In the context of these declining prices, coffee producers and importers have made a number of attempts to establish cartels, to limit supply into the final market and to drive up prices.

2.2 The differentiation in the coffee market: the specialty coffee

In the Arabica and Robusta markets, there is a clear differentiation trend about coffee blends and prices that is taking place in the major consuming countries. The reason why this process is occurring is traceable to the income-elasticity of coffee (such that as income grows, so will the demand for differentiated and higher quality coffee).



In addition to the variation in coffee prices, the out-of-home market is also growing and differentiating rapidly. In the US, and not only, the specialty market has taken off. A characteristic of this market is that the “product” they are offering is not coffee. It is the ambience, the image associated with costly coffee consumption, co-products (such as snacks), relief from the traffic, and so on. Sellers distinguish these coffees by highlighting their country of origin, by emphasizing the main characteristics. Starbucks and Illy belong to this category.

2.3 Decreasing quality and lagging demand

The slump of prices is not the only cause of concern.

The increasing usage of low-quality/low-priced coffees, mainly on the European continent and North America, is a trend of concern.

Moreover, while coffee production has grown rapidly, the demand for coffee in the developed world has seen sluggish growth although newer markets, such as Eastern countries (e.g. China & India), show greater promise.

In the current situation of worldwide high coffee production, oversupply and stagnating consumption, quality will be an ever important issue in a trade-driven market.

2.4 The competitive forces in the coffee industry

Rivalry among coffee wholesalers is strong and often fierce. The number of ground specialty coffees is steadily increasing and it is characterized by chief competitors such as Starbucks, Millstone, Illycaffè. The high level of competition is explained by the slow growth that characterizes the coffee industry and by the low cost faced by consumers and retailers to switch from one brand to another.

The rivalry among competing brands is the biggest source of competitive pressure. The other two sources are the bargaining power of retail chains and the ongoing entrance of new brands.

Furthermore, competition in specialty coffee is intensifying as well. There are two factors that alter the competitive landscape of the coffee market. The growing interest of consumers in specialty and premium coffees; in fact, many consumers are switching from low-quality coffee to more upscale coffees and now this is the fastest growing segment of the coffee business. In addition, the potentially high profit margin on specialty and premium coffees may attract further new entrants if this segment continues growing. This is also proven by the fact that the three major companies (Kraft, P&G, and Nestlé) have entered the business of premium coffee buyers. Therefore, the specialty segment is an attractive opportunity because it does not only pay a premium price well above standard market rates, but it has also been growing at a rate of 10 percent over the past decade.

2.5 Chinas Burgeoning

On the base of the current conditions of the global coffee industry, we have decided to focus our attention on the Chinese market. This decision has not been exclusively driven by the assumption that the Western market is overfilled. China represents not only an opportunity but also a real challenge since two completely different cultures get in touch.

China has always been known as a tea-drinking nation, and until recently, coffee was approximately not mentioned on restaurants' menus. The situation has deeply changed over the past few years: the influx of foreign investments and the confirmation of an affluent and western-

oriented youth are two main factors that have significantly fostered the coffee consumption. According to the experts, this trend will continue and increase meaningfully over the next 5 to 10 years. This aspect is also proven by the fact that the number of competitors in the market is arising.

Coffee arrived in China not in the form of the Espresso but rather as “Nescafe”. This was, in fact, the first company that introduced coffee in the Chinese market. Currently, Nestlé is holding about 85-90 percent of the Chinese market share with a predominant presence in the instant coffee market. However, this did not prevent other companies from entering the market. For instance, Sara Lee is planning to introduce instant coffee in China, while Starbucks is well established and known among Chinese since years. Starbucks’ coffee shops appeared for the first time in 1999 and this was fundamental because the masses started to approach it.

Therefore, we can assert that both Nestlé and Starbucks played an important role in “introducing” people to this unusual beverage that was so distant from their tea.

Another important element is represented by demography. The Chinese metropolitan youth is rapidly changing and increasingly looking at the Western style with curiosity as well as appreciation. This trend can be noticed in the coffee consumption as well: they see coffee as a lifestyle statement and as something which is fashionable and modern. This is proven by the increasing number of coffee shops opening up in Shanghai and Beijing that offer both tea and coffee as well as Chinese and Western food. This is reinforced by the increasing influx of foreigners into cities like Shanghai that provides a base of customers who are familiar with quality international brands.

Another segment that is coffee consumer is represented by the office workers.

As far as distribution concerns, supermarkets play a fundamental role since they are the symbolic places of the Western culture and consumerism. The evidence is that this sort of distribution has taken off and Western brands proliferate on the Chinese shelves.

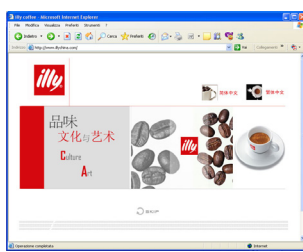
Brands are fundamental among the Chinese coffee consumers: they cannot make a distinction between different coffee blends, and they do not understand the difference between Arabica and Robusta; nevertheless, they are very sensitive to the status that leads them to consume superior brands.

In addition, we have to take into consideration that China is not associated with high-end luxury brands, but international brands are widely distributed in specialty department stores and in boutiques in cities like Shanghai and Beijing.

As far as taste concerns, Chinese prefer milky drinks and cappuccino which are the most sold in the coffee shops. Espresso is not particularly popular since it has a strong taste while they commonly prefer a slight one. As a consequence, not every brand of coffee may suit the Chinese consumer's taste; nevertheless, flavouring companies are making an effort to penetrate the market.

Illy is one of these businesses that entered the market to grasp the Chinese opportunity in 2003. It introduced its coffee into coffee shops and retail outlets. The brand is positioned as an exclusive product with a premium price that reflects its status.

Illy’s major challenge is to deal with the different tastes that characterize the population by responding the needs of the middle-aged man that basically prefers black espresso, and the needs of the younger consumer that tends to avoid strong tastes.



Illy's Chinese web site
<http://www.illychina.com>

3. The Illy audience positioning

3.1 Illy's current audiences

After this overview on the coffee industry that ranges from the competitive forces, the demand trends and the geopolitical factors, in this section we are going to consider Illy's market to understand how the brand could position itself in order to acquire a new perspective target. The starting point of our analysis is an emphasis on the idea that having a cup of coffee is an experience rooted into culture. Then, we will try to identify the actual Illy's audience on the basis of the variety of its offering.

At first, the coffee market is driven by demanding customers looking for a product which is able to meet their tastes and gives them a relaxing break or, at least, an excuse to have it.

The point is that having a cup of coffee encompasses a world of rituals and rites that have social and cultural roots.

This is emphasized by the consumption of coffee itself that varies not only from country to country but also from context to context. In addition, we do not have to forget that we are in a global market in which it is fundamental to understand the factors that guide preferences in order to achieve targets. This means considering different customers' needs contextualized in their own countries and specific cultures.

A dichotomy in the everyday consumption exists: sipping a coffee while standing at the bar and the so called social consumption while seating at a table. In the first case, the person drinks his/her coffee while standing at the bar and often with the only intent to drink it quickly and leave the place as soon as the rapid ritual comes to an end. The second situation is called social consumption because people seat around a table where they can talk quietly while sipping a cup of coffee. This one becomes a moment for socialization and interaction.

The coffee and the coffee experience assume different connotations in different contexts. In this phase of our study the analysis of the market on the basis of cultural differences and on the basis of psychographic and behavioural variables would be untimely as well as complicated.

For this reason, in order to find one or more targeted groups of consumers for our campaign, we will try to understand what Illy's current audiences are on the base of the product offered by the company.

3.2 Illycaffè's offer and targeted customers

Illy is able to offer a wide range of coffee to different segments in order to satisfy its consumers' needs in any situation: at bars before going to work, at home after dinner as well as in hotels during a meeting.

The **"at home"** segment consists of final consumers that like to enjoy a real espresso in the peace of their homes, using Moka or Espresso machines. In order to satisfy every specific need in terms of taste as well as experience, Illy suggests different formats of its product:

- > **Ground Coffee:** it is ready to use. It is contained in special metallic boxes to maintain its unique aroma.
- > **Coffee Beans:** this kind is dedicated to whom likes both the transformation and ritual process from beans to cap and the pleasure of having an espresso.
- > **Decaffeinated Coffee:** it's a kind of coffee without caffeine for those who can't renounce to coffee in any case.

- > **“Servings”**: this is a particular form of coffee, a single serving of compressed coffee between two layers of food filter paper especially thought for espresso machines. Servings tablets is a new way to prepare coffee, called E.S.E. (easy serving espresso), it aims at reducing wastes.



Ground Coffee



Coffee Beans



Decaffeinated Coffee



E.S.E. (easy serving espresso)

The **“at bar, restaurant and hotel”** refers to the distributors of Illy coffee to end consumers. We can define two kinds of players and two very different formulas to offer the same product:



- > **The traditional formula:** bar, restaurants and hotels which serve exclusively Illy coffee to its clients and buy bland and service from Illy. The big 3 Kg format of coffee was thought for them.



- > **The new formula:** Illy Bar Concept (IBC) is based on the illy coffee shop philosophy which combines architecture, design and obviously coffee. IBC is a selective distribution contract of illy products that lasts for 5 years including a licence for the free use of an architectural model and objects, like cups, created by famous Italian designers exclusively for Illy.

The **“at the workplace”** segment consists of offices and workplaces that have adopted the Itaca Espresso System to offer their workers an Illy espresso at any break. This system is the result of collaboration between Itaca, an Italian producer of coffee espresso machines for the workplace, and Illycaffè which studied a particular coffee capsules to be used exclusively with Itaca machines.



Itaca Espresso System: IES e la macchina per espresso Coffee Cube

At this point, we can assert that Illy is on the right path in order to be global in terms of usage. It reaches numerous segments that are characterized by different needs and tastes and, at the same time, by the contexts in which the coffee consumption takes place. The product reveals a high degree of dynamism and versatility which is given by the wide range of formulas that responds, for instance, to the need for functionality in a corporate environment and the need for huge quantities in hotels and restaurants.

This section aims at showing Illy's customer orientation as well as its active role in a changing environment in which it is fundamental to capture opportunities (such as emerging needs) in order to survive and exceed competitors.

Next step will be understand how Illy can communicate its values and sell its product to a particular audience.

4. Conclusions

This analysis leads us to define Illy as a multi-facet company which is able to emerge in the current coffee industry that, as previously shown, is precarious and concerning.

Firstly, Illy distinguishes itself in terms of **quality**. This is fundamental if we consider the fact that the market has been flooded by low-quality coffees. Secondly, Illy's coffee concept is synonymous of experience in terms of aesthetic pleasure as well as socialization. This characterizes the real added value and the competitive advantage in relation to competitors. The Illy experience can be considered "daily" in a broader sense: Illy suits every possible circumstance and it belongs to an habit. We do not have to forget that at the base of this success there is the Italian tradition and that of the Espresso that are recognized and appreciated worldwide. As a consequence, Illy can be considered as a fulfilment of the made in Italy because it joins the Espresso tradition with the sophisticated Italian design. To reinforce this, tradition is constantly nurtured with innovation that enables Illy to grasp the emerging opportunities and respond to an always changing environment. This is translated into two fundamental characteristics: dynamism and proactivity.



Mr Wang Hai Yan - Arts Haven, Illy cafe and bar, a stone's throw north of Beijing's Confucius Temple

Here, we get to a fundamental assumption: every possible market must not change or even affect the core values of the Illy product. The market must be the guideline to define the channels of our campaign.

The decision to focus on the Chinese market is given on the base of fundamental assumptions that goes beyond the clear fact that Western markets are overstocked.

Firstly, Chinese are showing a growing interest for everything which comes from West and this trend has really taken off in the biggest Chinese cities. Secondly, young guys have initiated a kind of "revolution" towards a tradition that seems to impose restrictions. They drink their traditional tea more rarely while coffee is perceived as modern and fashionable.

All this is reinforced by the fact that the Chinese market is constantly growing and, as a consequence, it represents a concrete opportunity. The purchase power of Chinese is increasing and, as a consequence, it represents an incentive to offer them a premium price product on the base of actions specifically aimed at educating people to the culture of the espresso. Therefore, the Chinese market stands both for an opportunity that must be exploited as well as a real challenge since two completely different cultures and traditions encounter.

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