Coffee 2016

Overview

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

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

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

Certainly there have been some positive signs. Indeed, many observers argued that a “third-wave” of transformation in the coffee market was already starting. (The first wave is said to have occurred when Maxwell House and Folgers made coffee a mass commodity, the second wave when Starbucks initiated a move to quality and higher prices.) Specialty coffee roasters had worked to build cafes and brands around origin-based beans sold directly to the roasters without reference to the commodity prices of coffee.

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

The International Coffee Organization is asking your team to make a presentation to their membership, proposing innovation(s) in the coffee supply chain that will help move Andrea Illy’s dream closer to reality. The scheme you present should have the following characteristics:

- Improve the livelihoods of growers and reward them for higher quality coffee;
- Increase coffee connoisseurship and willingness to pay among customers;
- Have substantial influence on the current structure of the coffee market (i.e. have impact on more than a select few farms and/or roasters).

Besides achieving the above goals, the scheme you propose should be practical. Your proposal should outline which firms and organizations are likely to participate and why they would have an incentive to do so. You should address which customer groups your scheme will target and why your scheme might alter their existing patterns of consumption. You should also outline the funding and governance of your particular scheme, referencing how firms and other actors would individually or cooperatively bring about the particular innovation you are proposing (e.g. if you believe that the coffee market would be made better through sponsoring “coffee cruises” you would specify who would own and pay for the boat, how the operational costs would be paid, who would choose the captain, etc.). Finally, your proposal should specify success metrics that would measure to what extent your scheme is achieving the goals specified above.

Your recommendations need not involve the resources of illycaffè directly, nor do you have to show that your innovation will materially benefit the company in any way. (Though you also are not barred from proposals that would include illycaffè in some manner.) Andrea Illy has noted that anything that increases coffee quality and appreciation will help his company.

Presentations will be judged on their innovativeness, feasibility and impact.

Case Website

“Coffee 2016” is Yale School of Management raw case that can be accessed at:

http://vol11.cases.som.yale.edu/coffee-2016

Username: Aspen-Yale-2016
Password: betterbeans!

Username and password are case sensitive.