

Pestel analysis of the global coffee industry



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Corporate strategy is the way a company or organization creates values through the configuration and co-ordination of its multi-market activities (Collis, 1997).

Coffee is the most widespread drink in the world with approximately half-a-trillion cups consumed every year. There are two fundamental types of coffee: espresso and regular, or non-espresso. Espresso is the variety of coffee available in cafés and restaurants, whilst regular coffee is generally meant for the home. Nearly 70% of the world's coffee is produced by the Americas of which Brazil contributes 30% to the global production.

The coffee industry of the world employs nearly 25 million people while approximately 5 million people work in the coffee industry in Brazil. Brazil has in excess of 3 billion coffee plants. The three major kinds of commercially produced coffee bean are Arabica, Robusta in addition to Liberia.

Brazilian Coffee production figures rose by more than 12 million (60kg) bags to an amazing 46 million during 2008 – making the country streets ahead of the other two top world coffee producers of Vietnam (19.5 million bags) and Colombia (13.1 million bags).

PORTER'S FIVE FORCES :

Threat of substitution:

Other beverages apart from coffee the substitutes are tea, soda, fruit juice, water, beer and other alcoholic drinks, other “quick grab” foods apart from pastries, muffins, doughnuts, etc. Lower end or “less luxurious” coffee places. Places that offer people a place to hang out, chat, relax or

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even work include tea houses, fast food places, ice cream parlors, sidewalk cafes, and bars and pubs. Accordingly when there are so many substitutes available, the threat is high and seems to be increasing by day to day.

Threat of new entrants:

Some of the more current and ongoing threats of new entrants include fast food chains such as McDonalds, Burger King and Dunkin Donuts. The entry barrier for the coffee industry is relatively moderate. Any large and well-funded company where capital is not a problem could be potential entrants, since they have a strong brand image over the industry.

Rivalry:

There are many big players in the Brazil retail coffee market and with large no of small scale coffee shops big players have to fight out with small shops across different regions in US. With most of the customers taking coffee to home and provides convenience which is the major factor for them. There is an intense competition among the players to build up their customer base.

Bargaining power of suppliers:

There is more bargaining power for suppliers since the advancement in technological innovations such as automated coffee machines, latte and espresso machines, etc has made them to bargain over the industry. These changes, has made the supplier power high.

Bargaining power of buyers:

Buyers do not have the power to bargain in the market, considering Starbucks. The sheer scale of Starbucks' business reduces the bargaining

power of any single group of buyers. McDonalds who claim to offer premium roast coffee of reasonable quality at a lower price, so buyers need not bargain their needs.

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Political/Legal:

High standards relating particularly to coffee producing methods are becoming more important in the industry and may gain political prominence. There is increasing pressure for businesses to trade ethically, that is, socially, environmentally, and economically responsible.

This is reflected in the coffee industry by an increased demand and rising market value for sustainable coffees such as certified coffee and fair trade coffee, which guarantees a fair price to producers. The fair trade market which is now worth £100 million, is growing with developments such as Tesco's launch of their own Fair trade range. Fair trade is also a means by which the coffee shop industry can differentiate their products and gain a socially responsible reputation; Starbucks customers now have the option to buy fair trade coffee. Oxfam have claimed there is a niche' in the coffee shop market and have responded by

launching their own brand of Fair trade coffee Progresso' which is sold on already established premises such as bookstores.

Economical:

The impact of coffee on Brazilian economy was much stronger. The greater difficulty of coffee production and trade established important sectorial linkages within the Brazilian economy. Coffee was the foundation of the <https://assignbuster.com/pestel-analysis-of-the-global-coffee-industry/>

economy, accounting for 63% of the country's exports. Brazilian economy went through periods of growth but also difficulties and increasing trends towards coffee overproduction. The economic performances and development prospects of many developing countries are largely dependent on commodity issues. (Photius. com, 2004)

Social:

The coffee market must adapt to a change in consumer attitudes or else it may be threatened by health and lifestyle issues. In 2003 the hot drinks market declined by an estimated 2.3%. Consumers, especially young people, are becoming more health conscious which makes coffee a less attractive choice; the increasing number of alternatives available such as health and energy drinks are becoming competitors in the coffee industry. Research carried out by Mintel shows that there is an increased diversification of tea, with a trend towards premium and herbal teas. The coffee industry are responded to this change in attitude by provision of de-caff drinks, options such as soy milk, and alternative drinks such as freshly squeezed fruit juices, chai lattes and herbal teas.

Technological:

Consumers are less inclined to buy coffees and teas in supermarkets due to the wide variety of coffees that are available in coffee shops today. Hi-tech equipment and premium ingredients are now easily accessible and are used to make a variety of hot and cold beverages that are sold in coffee shops; from cappuccinos to the ice blended coffees. As a result consumers are becoming more knowledgeable about the ranges of specialised fresh coffees

and premium teas that are available, and their tastes are changing to accompany them.

Environmental:

The environmental impact is almost always positive and it is important that coffee production and processing should be taken into account for environmental needs to make sure optimal physical sustainability. Even more necessary is that the economic environment should be such as to encourage stability and reasonable living standards for the populations involved with coffee and to make sure the sufficient care should be given to make sure the maintenance of the quality. (Change the environment.)

http://www.ico.org/sustainable_coffee.asp

STRUCTURAL DRIVERS OF CHANGE:

Product Innovation:

Product innovation is a driving force that has allowed the coffee industry to grow. Coffee drinks were developed as an anytime coffee drink. Such drinks are Espressos, Cappuccinos, Frappaccinos, Lattes, and Mochas. Whether a consumer likes it hot or cold is no difference now; iced coffee is for those that do not feel like a hot cup. Black, White, Irish, Turkish and Americano are also other types of coffee to choose from. Flavored coffee is a pillar innovation to this product category allowing different consumers' taste buds to run wild. Chocolate covered coffee beans are another innovation to the coffee industry.

This industry growth has also allowed companies the opportunity to promote to different consumer markets. Young and old purchasers, people that like <https://assignbuster.com/pestel-analysis-of-the-global-coffee-industry/>

hot or cold coffee, and those that like a coffee drink in the morning or evening are all targeted now that the product lines have broadened the scope of the industry. Product innovation has helped consumers' differentiation issues, along with allowing them to drink it anytime of day they need an extra tasty boost of energy.

Pricing:

Prices of coffee are relatively inelastic, with consumers becoming more aware of the quality of their coffee, where it is derived from, and the atmosphere in the branded coffee shops. As a result consumers will regard a high priced quality branded product as good value; more than two-thirds (70%) of coffee drinkers will pay more for a good cup of coffee. This was evident when Coffee Nation increased sales by moving from a cheap instant coffee to an espresso coffee with improved packaging.

Consumer's life style:

Consumer's lifestyle is the other driving force that ties in with the customer base and usage. Society is changing, with the new generations being a huge influence. Parents, a huge factor in the lifestyle, attitudes, and opinions of their children, drink coffee and are, thus, promoting coffee to the offspring. These young persons are looking for caffeine to keep them going through their increasingly busy days. At age 13, who knew that coffee was needed to add to their ever-so hyper lives? Coffee is established as a drink older people consume. Young people are always aspiring to be older than they are, so coffee is marketed in a different way to the younger generations as specialty coffee and gourmet beverages. Establishing loyalty early while coffee drinkers are young will ensure a prospective future for this industry.

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http://www.businessweek.com/magazine/content/05_41/b3954201.htm

Industry life cycle model:

Introduction stage:

In the introduction stage the profit will be low and the cost will be very much expensive. The market growth starts with the introduction stage with low competition and high prices and the demand will be comparatively low.

Growth stage:

Profits start with the growth in the sales. Varieties of coffee with added flavors being focused during growth stage to get the brand image, value and growing market share.

Maturity stage:

During maturity stage the profit of the industry increases and the demand also increases. Competition will be very high and customer satisfaction will increase. Saturation takes place due to brand value.

Decline stage:

It is very difficult to survive in the market if the industry won't be innovative and introduce new products.

By analyzing the life cycle model we can implicate that the coffee industry should come up with new innovative product. The coffee industry lies between the maturity stage and decline stage. Coffee has some advantages in health regards which decreases the diabetes and makes brain alert. Coffee consumers due to raising health concerns they can go for alternatives such as green tea which is good for health more than coffee. Therefore I <https://assignbuster.com/pestel-analysis-of-the-global-coffee-industry/>

conclude coffee industry will lie between the maturity and decline stage and it may decline if there is any serious health issues occurs around the world.

Scenarios

Substitute product:

Energy drinks may all together substitute the coffee in future. The countries like china and India being the world's largest producers of tea. They can come up with new innovative products and it will be created in the retail industry. Considering the health concerns people may prefer green tea than coffee. The Chinese have known about the medicinal benefits of green tea from ancient times. Today scientific research in Asia and in West is providing hard evidence for the health benefits long associated with drinking green tea. There is also a research representing that drinking green tea reduces high cholesterol, cancer, impaired immune function.

<http://chinesefood.about.com/library/weekly/aa011400a.htm>

Climate change:

Climate change is just one of numerous factors that may affect global coffee production. The international coffee organization considers it one of the most important ones. Temperature and rainfall conditions are the two main drivers when it's come to yield, i. e. production. As temperature increases coffee ripens more quickly leading to a fall in inherent quality. According to Brazil Rising temperatures suggest coffee production will become viable in areas formerly considered too prone to frosts. Meteorological agencies report temperatures consistently above the historical average since the 1990's.

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However, too high temperatures will reduce the overall acreage with climatic potential for coffee production.

www.thecoffeeguide.org

Demand for quality:

Since the industry has already passed the maturity stage the players were try to increase the quality by analyzing their brewing systems, and by trying to bring different flavours in the coffee. Following the recommendations of the committee, the international coffee council adopted resolution in February 2002 to implement the coffee quality program. The CQP is designed to improve the balance supply and demand of coffee by stimulating demand through the provision of the better overall standard of quality to the market.

http://www.ico.org/improving_quality.asp