

Coffee market analysis case study example

[Business](#), [Company](#)



Question 1. Why should Starbucks, Kraft, and Nestle create "ethical supply chains"?

The concept of ethical supply chain has grown more and more popular in the recent years. Ethical in this case should not be confused with legally right, since ethical considerations go far beyond legislation or business relations. Ethical behaviour is usually linked to social responsibility of the companies, which is embedded into their strategy and operations. In businesses related to the global sourcing of inputs, ethical behaviour largely depends on the fair trade concepts, which promote supporting suppliers in the poor countries in order to improve their productivity and enhance competitiveness (Barrar, and Gervais). Since supply chain is in the centre of sourcing from the developing world and offers a practical application of companies' principles, ethical approach to supply chain should be given the top priority.

Ethical supply chain, in this case, implies that the company takes responsibility for the downstream and upstream stages of the supply chain, ensuring socially responsible and environmental approach to business. The concept is different from the traditional view of the supply chain, where the company takes no responsibility over its suppliers and further distributors.

Unfortunately, ethical codes within the company put a lot of emphasis on performance and quality control, while omitting price considerations.

However, low price agreements with coffee vendors do not limit production due to the perennial costs. Instead, coffee producers exploit labour and increase yields by putting more pressure on the environment (Blowfield 15-24). Therefore, ethical behaviour should be practised along the whole supply chain, where companies like Starbucks should control the adherence to the

ethical standards on the sourcing side, and encourage them both by paying fair prices for the inputs and assisting with production improvement and development.

Question 2: Do you agree with the finding that few consumers consider the impact of their purchase decisions on anyone or anything but themselves and their family?

The self-interest concept, introduced by Adam Smith implies that both consumers and producers are maximizing their benefit by seeking the most favourable conditions. The mechanism of negotiations in the market is thus controlled by the forces of supply and demand, which determine both the selling price and the level of output, which is optimal for the society (Smith). Unfortunately, the situation in the real world differs from the economic model. The bargaining power in the market is not distributed evenly; therefore some parties have to forgo their interests in order to derive at least some benefits. In the case of coffee industry, consumers follow Adam Smith's theory. Once the quality of various coffee brands is the same, people tend to buy the cheapest option. Very few of the customers consider the way low prices are obtained by the manufacturers. The bargaining power of the major coffee companies, such as Starbucks, is much higher than that of small coffee producers in the developing countries.

Therefore, when big coffee corporations try to maximise their benefit and margins by procuring the cheapest inputs and offering low price in order to increase sales, farmers in the developing countries have to agree to their conditions. Therefore, the choice of the consumers to obtain low prices for coffee is made without the consideration of the downstream problems for the

suppliers. However, the situation is changing in the recent years. Consumers today not only seek to buy the cheapest coffee, but also consider social responsibility and ethical practices as an integral part of product quality (MacDonald, and Marshall). Therefore, corporations have to squeeze their margins and strive for operational excellence, since they have to pay higher input prices to their raw materials supplier. This effect demonstrates that consumer choices are not only driven by the cost of the product, while the power of the consumers is often the strongest in the market.

Question 3: What recommendations would you make to cure the ills of the coffee market?

The ills of the coffee market are not easy to eliminate or cure, due to the tensions among the interests of the market stakeholders. On the one side, consumers demand low prices for coffee products. The farmers in the developing countries, on the other hand, need to be paid more for their products in order to follow the logic of fair trade and ethical supply chain. The coffee companies, however, seek to maximize their revenues by selling at the highest possible price and producing at the lowest cost. Lastly, the society in general demands social responsibility and ethical behaviour from the company. Non-compliance with these principles may destroy the image of the company and lead to a loss of business. The only remedy, in my opinion, can be sought in the optimization of processes and extensive implementation of technology.

More efficient production and supply chain will reduce operational cost, thus improving the margins of the coffee companies. Secondly, low production cost offers an opportunity to sell coffee at a lower price, thus satisfying

consumer demands. Lastly, input prices will no longer be the only source of cost reduction, thus it will become possible to procure raw materials from the farmers at a higher unit price, adhering to the fair trade and social responsibility. Better technology and more efficient agricultural processes in the developing countries will also help to lower the prices of coffee, without decreasing the revenues of the farmers. However, in order to achieve this state, coffee corporations should make a commitment to the control of their process along the whole supply chain, assist their suppliers and incorporate the principles of fair trade into their business.

References

- Barrar, Peter, and Roxane Gervais. Global outsourcing strategies: an international reference on effective outsourcing relationships. Aldershot, the United Kingdom: Gower Publishing, 2006. eBook.
- Blowfield, Mick. " Ethical Supply Chains in the Cocoa, Coffee and Tea Industries." GMI. 2003: 15-24. Web. 8 Oct. 2011. .
- MacDonald, Kate, and Shelley Marshall. Fair trade, corporate accountability and beyond: experiments in globalizing justice. Farnham, the United Kingdom: Ashgate Publishing, 2010. Print. Smith, Adam. The Wealth of Nations. Digireads. com Publishing, 2009.