

Strategic Analysis for a Coffee Company– Part 1

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ABSTRACT: *The purpose of this paper was to conduct a strategic analysis of a Coffee Company in Durban, South Africa. Environmental analysis tools were used such as PESTLE for a macro analysis and Porters Five Forces for a micro analysis in order to identify the factors that can impact the performance of this company. Porter’s value chain and SWOT analysis was used to devise a successful strategy for the future of the company. The significant findings revealed that the Coffee Company must focus on market expansion, franchising strategy and acquisition. A strategic plan to address these opportunities will be presented in a future paper.*

KEYWORDS: strategic, analysis, coffee, company

INTRODUCTION

This paper is a critical appraisal of the effects of the external environment and globalisation on a Coffee Company and to identify the opportunities that exist for this company in this context. This Coffee Company is part of the hospitality industry in South Africa and specialises in a diverse range of roasted blends of coffee. The company was founded in 2012 and is well established in South Africa with 13 outlets throughout the country. It has penetrated the global market moderately with 8 outlets throughout the continent of Africa. In spite of the turbulence in the global markets, the Coffee Company’s financial position is stable with an annual profit estimated at ZAR 30 million (USD 3 million). This success is largely attributed to the philosophy of the company in which the premise is to consider their employees as collaborative partners. In this regard, their employees are allowed to own shares in the company. In addition, the company has a training scheme to ensure that its employees continue to develop and enhance their industry knowledge and skills. This ethos of developing a working culture that is positive has resulted in a decrease in staff turnover. In the pre-COVID-19 period of 2019-2020, the Coffee Company’s market share in Africa was approximately 21.6% and was ranked as the second-best brand in South Africa and 183rd amongst global brands (South Africa Coffee Market, 2020). Domestically, the major coffee chain players in South Africa are Starbucks, Costa Coffee and Tim Hortons which collectively control over 60% of the South African coffee market. Therefore, these companies have considerable market influence and power especially in terms of the pricing of coffees. Globally, the demand for coffee is expected to grow by 20%

(International Coffee Organisation, 2022). In fact, the International Coffee Organisation (2022) estimates that there may even be a shortage in the supply chain and that this shortage can significantly affect the price of coffee. Furthermore, with customers increasingly preferring to make health food choices, coffee chains will need to expand their products to include smoothies and organic and caffeine free coffee. This global situation presents the Coffee Company with a unique opportunity to expand its products and hence its market presence within the global coffee industry.

METHODOLOGY

In this section the external environmental was analysed using PESTLE for a macro analysis and Porters Five Forces for a micro analysis. A PESTLE analysis is “a strategic framework commonly used to evaluate the business environment in which a firm operates” (Turner, 2002, p. 23). PESTLE stands for political, economic, social, technological, legal and environmental. The potential competitive advantage was analysed using Porter’s Value Chain. Porter’s value chain is “a progression of activities that a firm operating in a specific industry performs in order to deliver a valuable product to the end customer”(Porter, 1985, p. 65). It comprises primary activities and supporting activities. A SWOT analysis is “a tool that can help analyse what a company does best now, and to devise a successful strategy for the future” (Namugenyia *et al.*, 2019, p. 1146). SWOT is an acronym for strengths, weaknesses, opportunities, and threats. A SWOT analysis was used to identify the strengths, weaknesses, opportunities and challenges that exist for the Coffee Company.

DISCUSSION

PESTLE Macro Analysis

Political

The political situation in South Africa is stable at present and the country has maintained a strong trading relationship with coffee companies and producers both in Africa and globally, and in particular with South America. This stability in the political situation is likely to contribute to the Coffee Company having the ability to enter leading and emerging markets throughout the globe.

Economic

The impact of COVID-19 on business together with inflation has caused a financial crisis in the global markets and has sparked a recession in many countries (Chen and Yeh, 2021). Consequently, the purchasing power of consumers has decreased because of the decline in their disposable income. In South Africa, the finance minister has proposed an emergency budget targeting higher interest rates and taxation (Parliament of the Republic of South Africa, 2022), and these economic changes are likely to impact on the profitability of the Coffee Company.

Social

Customer preferences are changing to include more healthier options. It is important for the hospitality industry to meet these changing needs for the business to remain financially viable. Since 2017, the Coffee Company has offered its customers healthier choices such as smoothies and organic and caffeine free coffee.

Technological

Since COVID-19 there has been a significant increase in online purchases (Koch et al., 2020). In 2020, the Coffee Company introduced web-based technology for online ordering and Wi-Fi in all its stores. The rationale is that these technologies will aid in the competitiveness of the company.

Legal

The Coffee Company must operate within the legal framework consisting of regulations, rules and business standards of each country. Furthermore, the Coffee Company must also adhere to international law so that there is operational efficiency between the local and global markets. The Coffee Company is a multi-national company and therefore it will be monitored with strict scrutiny. The company must evaluate its position in different countries to ensure that it remains compliant with the relevant tax policies and laws.

Environmental

Environmental advocacy groups can put huge amounts of pressure on companies to function in an environmental and ecologically friendly manner. Like many other countries South Africa has environmental legislation and rules in place. The Coffee Company has a reusable coffee cup scheme that contributes to being more environmentally friendly. Furthermore, there is an ethical responsibility for the hospitality industry to remain environmentally friendly because ecological disasters can lead to shortages in coffee beans.

Porters Five Forces Micro Analysis

Barriers to entry (Moderate)

The barriers to enter the coffee market are moderate and therefore it is possible for competing coffee chains to enter. Entering the coffee market is not expensive because most coffee chains start as small shops with a small initial investment.

Threat to substitute (High)

Customers have a choice of the type of beverages they wish to consume. Customers can also buy coffee powder in supermarkets and make their favourite coffee at home at a lower cost.

Buyer power (Moderate to Low)

In the coffee industry there are many different buyers. Most buyers purchase their stock in small quantities because large stocks can expire and give the coffee a flat taste. So, no buyer has the power to control the market price.

Supplier Power (Low to Moderate)

The Coffee Company depends on premium South American coffee beans. It is relatively easy for the Coffee Company to change coffee suppliers in order to ensure that its products remain at high quality.

Rivalry (High to Moderate)

The coffee industry in South Africa is dominated by large companies. Globally, Starbucks dominates the market which is evidenced by its substantial market share (Starbucks Corporation, 2022). The Coffee Company has managed to compete with these global companies by ensuring its products are quality focussed.

Porter's Value Chain - Potential competitive advantage

Porter's Value Chain comprises primary activities and supporting activities.

Primary activities

Inbound logistics

Different producers and specific locations which are appointed by the Coffee Company account for the inbound logistics. All raw materials are sourced from external contractors and then stored at storage sites ready to be used by the company.

Operations

The Coffee Company operates both nationally and internationally. It has its own coffee shops in South Africa as well as in different countries.

Outbound logistics

The Coffee Company sells its products overseas using agents that are contracted by the company. However, most of its products are sold directly to shops both locally and internationally.

Marketing and sales

The Coffee Company invests in products that are of premium quality with a focus on marketing and customer sales. The company's marketing and sales activities are based on market research and data.

Service

The Coffee Company is focussed on customer service with the purpose of building strong relationships and loyalty. This is achieved through dealing with queries promptly and regular customer feedback surveys.

Support activities

Infrastructure

The business of the Coffee Company is kept running by numerous departments such as legal, finance and management.

Human resource management

The Coffee Company is committed to developing and training its staff which is vital for the company's success. Human resources ensures that the company's goals and mission are maintained.

Technology development

The Coffee Company has invested in modern technology systems to ensure its business runs effectively. The company also uses social media to connect and communicate with its customers.

Procurement

The Coffee Company has agents in different regions and countries to source high quality coffee beans so that the finest quality can be sold to its customers.

SWOT analysis

Strengths

Market research focussed – the data based on market research is used by the Coffee Company to modify and broaden its products.

Attention to innovation – the Coffee Company's strong investment in innovation helps to keep it apart from other similar coffee chains.

Worldwide distribution network – the Coffee Company has international agents to assist with sourcing premium coffee beans and distribution.

Weaknesses

Premium prices – the Coffee Company uses high quality coffee beans in its products and therefore prices can sometimes be viewed as being high.

Imitation products – the Coffee Company's focus on high quality coffee reduces its ability to compete with cheaper impersonations of its coffee drinks.

Opportunities

Emerging market expansion – the Coffee Company should expand its business to developing and emerging markets such as India, China and Brazil.

Enhancement of business – the Coffee Company must diversify its products so that it does not depend only on existing products for its income.

Working in partnership with different retailers – the Coffee Company can remain competitive by forming partnerships with different retailers. This will ensure that its market share increases.

Threats

Price competition – the Coffee Company must compete with both premium coffee companies and those that offer cheaper products and items.

Increased competition – There is a real treat of other coffee companies wanting to duplicate the feel, look and taste of the Coffee Company at a reduced cost.

CONCLUSION

Following the strategic analysis of the Coffee Company, the following conclusions and recommendations are suggested:

Market expansion – Despite the increase in competition, the Coffee Company should consider expanding its markets in emerging economies such as India, China and Brazil to maximise its profits.

Franchising strategy – the Coffee Company should consider franchising its products to gain an advantage in the global markets. This will allow the company to maintain the quality of its products and hence its brand.

Acquisition – One strategy to increase its dominance in the coffee industry is for the Coffee Company to acquire smaller coffee shops/chains in the market. This will ensure that it remains competitive and survives within changing business and economic cycles.

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