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A Strategic Analysis of the Lavazza Group

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INTRODUCTION

In 1895, Luigi Lavazza established a coffee roastery in Turin, Northern Italy, which is currently known as the Lavazza Group (LG). Luigi was a coffee enthusiast and made a groundbreaking contribution to the coffee world by introducing the first coffee blends for consumption. Back then, blends for domestic use were not yet available. Luigi's innovative blend had a more harmonious taste, meeting the diverse demands of the market (Gruppo Lavazza, n.d.-f).

After 128 years, the LG has become a significant player on a global scale in the coffee industry. LG is one of the major Italian coffee companies with a turnover of €2.7 billion (nearly \$3 billion dollars) and offers a variety of coffee brands that are leaders in their respective markets, such as Lavazza, Carte Noire, Merrild, and Kicking Horse (Gruppo Lavazza, n.d.-f).

LG is active in all business sectors and operates in over 140 markets, with 8 manufacturing plants in 5 countries and over 5.500 collaborators worldwide. This global presence has been achieved due to over 125 years of constant growth, accomplished from constant investments made in research and innovation, with a continuous focus on sustainability. Today, LG accounts for over 30 billion cups of coffee produced yearly, which is a testament to a remarkable success story (Gruppo Lavazza, n.d.-f).



https://www.costco.com.au/Kitchen-Laundry-Appliances/Small-Appliances/c/cos_2.4

Mission, Vision, and Objectives

The main goal of the LG is to provide an exceptional coffee experience in every possible way. Their mission is to ensure that anyone can savor a delightful moment with the perfect coffee product at any time of the day. LG is committed to offering the best coffee to its customers (Lavazza Group. n.d.). Lavazza's vision is to awaken a better world every morning with respect for people and the environment. This is the fullest expression of LG's worldwide coffee family's commitment to improving our world daily. The LG provides high-quality products through an innovative, sustainable, and expert model driven by passion (Lavazza Group. n.d.)

The social objectives of the Lavazza Foundation are concentrated on promoting and implementing economic, social, and environmental sustainability projects to support coffee-producing communities worldwide. The Foundation undertakes development projects to achieve meaningful results in partnership with public and private bodies, international organizations, and NGOs. Only through teamwork can the living conditions in coffee-producing communities be effectively improved. The Lavazza Foundation supported projects with the primary objective of helping coffee producers improve their products' yield and quality through agricultural best practices, training, and encouraging the development of entrepreneurial skills. (Our values. Lavazza, n.d.)

Furthermore, the Lavazza Foundation has completed several projects aligned with its goals and objectives of promoting social, environmental, and economic sustainability. One area of focus is supporting communities that produce coffee. In 2021, the Foundation launched 32 projects aimed at helping over 136,000 coffee growers in 20 countries across three continents. These projects have measurable outcomes and are making a positive impact. These programs aim to improve the yield and quality of coffee while promoting entrepreneurship and improving the living standards of growers. They also support gender equality and involve

the younger generation. LG is working to improve the environmental impact of their production facilities in France, Canada, and the UK, and their facilities in Italy already use 100% renewable energy.

LG is committed to sustainability in its packaging with its "Sustainable Packaging Roadmap" project, aiming to increase the percentage of recyclable packaging beyond its current 65%. Additionally, the company is dedicated to offsetting emissions that cannot be reduced and has already purchased 830,000 tons of carbon credits. Their environmental efforts have also supported projects that protect over 900,000 hectares of forests, offset 270,000 tons of CO₂, and provide access to clean water for 37,000 people. LG also prioritizes social responsibility, collaborating with over 93 non-governmental organizations in 2021 to promote the role of young people and women's empowerment. Their efforts have not gone unnoticed, as LG has been recognized as one of the "Most Reputable Companies" and nominated among the top 50 globally by "Global RepTrak" in 2022 (The Sustainability Report. Gruppo Lavazza, n.d.).



https://www.ideal.de/preisvergleich/OfferOfProduct/201410591_-espresso-italiano-classico-bohnen-500g-lavazza.html

Competitive Strategy

LG follows a business strategy that allows the firm to achieve a sustainable competitive advantage. LG's strategy focuses on being a "best value" firm; a differentiated product at competitive pricing. LG offers its products at reasonable prices while improving the quality of its products over the years (OFA6IE, 2018). LG has continued to invest in unique products which are not readily available from other firms.

LG's primary goal is to always satisfy customers' needs by providing the best quality unique products. As the coffee market has become increasingly competitive, LG is constantly studying how to differentiate its products from its competitors by providing a wide variety of products or continually introducing new items. LG provides its customers with similar products as its competitors but at lower prices (The Lavazza case. n.d.). For example, on "Amazon.com" it is possible to purchase one bag of Lavazza classico ground coffee blend, medium roast type, 12 Oz size bag, at a price of \$6.48, which is \$0.54/Ounce (Schwartz & Nocella, 1977a). The same store also sells coffee produced by one of Lavazza Group's competitors, "Starbucks" coffee. In comparison with Lavazza, Starbucks is not the highest quality and is more expensive. For example, for one medium roast ground coffee of 12 OZ, customers pay nearly double, a total amount of \$11.49, which is \$0.96/Ounce (Schwartz & Nocella, 1977b).

Thanks to Lavazza's firm best value strategy and its unique approach, this company has expanded into multiple countries and has reached the goal of catering the firm's products to differing international markets. LG by increasing its foreign sales by 60 percent has looked forward to improving its growth rate through international operations. And as a matter of fact, LG has reached direct subsidiaries markets in Germany, France, the United States, and the United Kingdom. Moreover, LG also started distribution in the Australian

market through its partnership with Valcorp. Thus, these tactics are helping the company expand its business and develop a vast industry for coffee lovers worldwide (Lavazza. n.d.).

Overall, the best value strategy seems to be successful and distinctive for Lavazza Group. The company has become Italy's market leader in the coffee industry, with purchases of a total of 150,000 tons of coffee per year, of which about 2,300 tons are certified coffee, either RA or UTZ. Additionally, more significant benefits for the company can be achieved by coordinating various coffee chain players to create synergies and strengthen the impact of each project. Therefore, LG participates in International Coffee Partners and the coffee & climate initiative (Oxfam Novib, n.d.). Thanks to all of these combined plans, the company was able to not only conquer the international market but to introduce its products of high quality and variety of products to consumers worldwide, with accessible prices.



<https://www.ebay.com/p/3015950216?iid=254362000069>

LG's overall market approach is a combination of prospecting and defending. According to Miles and Snow (1978), prospectors like LG look toward the company's expansion on a global level by reaching multiple international markets. At the same time, LG is defending its existing operations in its home country Italy. As a result of defending its national Italian coffee industry market, Lavazza Group was able to obtain the title of "Italy's Favourite Coffee," and the company claims that over 16 million consumers out of the 20 million prefer Lavazza brand over any other Italian coffee brands (Lavazza - Marketing & Distribution n.d., <https://www.learnitalianpod.com/2023/04/13/best-italian-coffee-brands/>).

Today, LG is present on five continents, in more than 140 countries worldwide, and operates through direct subsidiaries and a broad network of distributors. In addition, LG's industrial system also consists of nine manufacturing plants, of which three are located in Italy, one in France, and another in Canada. Additionally, plants are in the United Kingdom and the United States, with one production hub in India serving the local market (Gruppo Lavazza, n.d.).

LG's intentional approach to the marketplace seems efficient and prosperous because the company constantly reaches new markets by expanding its manufacturing plants in different countries and continents. Nevertheless, LG is not losing sight the brand's positioning in Italy, the country where the firm was established. Given the above research, it can be established that the Lavazza Coffee brand has established an admirable strategic approach and continues to pursue this strategy by counting the results of the company's international presence and consumers' choice to buy Lavazza products, at accessible prices all over the world.

Business Model: Multiple Distribution Network

LG employs an "all sales channel" network approach: Retail, Foodservice, Office Coffee Service and Vending. (<https://www.lavazzagroup.com/en/what-we-do/our-businesses.html>). In terms of *retail*, within domestic consumption, the Lavazza Group holds an important position in many key markets, such as Italy (with the Lavazza brand); France (with the Carte Noire brand); Denmark and the Baltic countries (with Merrill); and Canada (with Kicking Horse). The products it offers, which are tailored to each country, include coffee beans and ground coffee — for espresso, moka pot or filter — as well as coffee pods, instant coffee, ready-to-drink products and coffee capsules for the most commonly used home coffee systems in the world, capable of satisfying all consumers' taste needs.

Foodservices include distribution through hotels, restaurants and cafes. The Lavazza Group offers professionals in the field dedicated products and tailored solutions for every type of service and every coffee preparation method. In addition to coffee, the offering is completed by complementary products, such as beverages like chocolate, ginseng, orzo, tea, infusions and granitas.

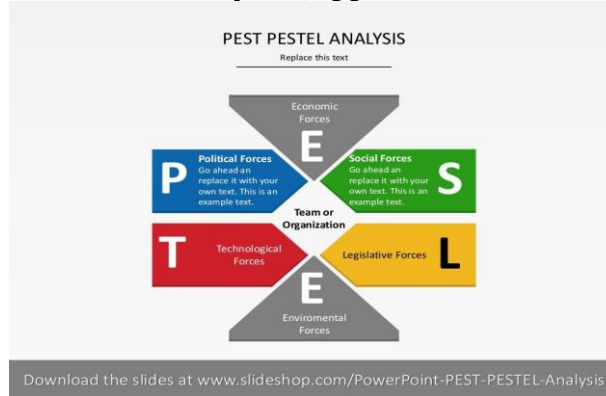
Office Coffee Service and Vending. In terms of offices, LG devotes particular care to workplaces, and especially offices, with an offering that includes a broad selection of coffee capsules. This is in addition to a range of stylish coffee machines for manual use, suitable for any environment. This channel features systems with cutting-edge technology, including: Lavazza Firma, which brings all the variety of a café into the office, with a highly professional service for supplies and assistance; Flavia from Lavazza Professional, with its hallmark Freshpack technology to prevent contamination between one drink and the next, and which can offer both hot and cold beverages as well as frothing fresh milk, thanks to its innovative Odyssey 600 coffee machine with the Odyssey Cold module; and Lavazza Expert, designed for the North American market, which offers espresso, filter coffee and milk-based beverages. The service for supplies and assistance is offered by a network of carefully selected partners. A rich and varied offering, ideal for offices of any size and any number of employees.

For *vending and public venues*, LG employs free-standing and table-top automatic coffee machines, which are able to bring out the sensory characteristics of a wide range of blends developed specifically for this channel. Completing the offering is a special range of coffee beans with distinctive characteristics. The Group offers products and services under the Lavazza Blue brand and the Klix brand, for Lavazza Professional, which has become a benchmark in sustainability through its Eco Cups: fully recyclable and compostable paper cups, whose environmental impact is over 63% lower than that of other coffee machines that use plastic cups. (<https://www.lavazzagroup.com/en/what-we-do/our-businesses.html>)



<https://www.lavazzabusinesssolutions.com.au/commercial-coffee-products/coffee-machines/>

Lavazza Group: Environmental/External Analyses (Opportunities /Threats)



PLEST Analysis

PLEST Analysis is a tool used to measure markets for products or businesses at a specific time - the word "PEST" stands specifically for Political, Economic, Social, and Technological factors (The Economic Times, n.d.).

Once these factors are analyzed, organizations can make better business strategic decisions. In other words, PEST Analysis is helpful for firms when making decisions that would improve the effectiveness of the business by evaluating all of the above mentioned factors. When making strategic business decisions, it is always good to assess the strengths, weaknesses, opportunities, and threats that come with them. In the case of Lavazza Group, these factors play an essential role, as the coffee industry can be challenging to operate in. When we speak about the coffee industry, multiple political factors can affect this specific industry, such as trade relationships with coffee producers to currency exchange. The firm therefore needs to evaluate the external environment and identify potential opportunities and threats.

Political factors. Politics plays a unique role in both finding raw materials and sourcing them from other countries. Politics involves international trade laws as well as politics and political structures of different countries. Tariffs and other trade restrictions impacts the cost of raw materials and dictates a firm's purchasing power. If the cost of the raw material is higher, the prices of the finished goods or services will be higher as well (or the firm accepts a lower profit margin). On this matter, Lavazza Group started conducting dialogs with its coffee resellers as the beans' costs went up, and consequently, the retail coffee prices went up (Gruppo Lavazza, n.d; News and Media, 2022.).

Another factor that could impact the coffee business is the national and international regulations that the organization is required to follow. In every international trade, taxes are a key factor that drives businesses' to purchase raw materials from certain nations over others. The Lavazza Group follows a strict tax strategy defined by principles set out in their code of ethics. In fact, Lavazza Group aims to comply with all tax regulations in the various jurisdictions in which the firm operates. Lavazza mainly aims to adopt a governance system to minimize tax risks. The firm has constantly promoted continuous and proactive cooperative relationships with the Tax Authorities that are directly managed professionally, transparently and timely (Gruppo Lavazza, n.d.).

Legal Factor. Lavazza Group has always ensured that the organization does not violate any laws. In fact, on Lavazza's official website, we can find the leading law the firm complies with, Italian Legislative Decree No. 231/01. This law focuses on confidentially reporting potential unlawful acts according to Italian law. According to LG, business has to be conducted with maximum loyalty, propriety, honesty, integrity, and transparency. In addition, Lavazza's website mentions the primary law that LG has a "zero-tolerance" corruption policy approach. This anti-corruption policy summarizes the principles of organizations' approach to fighting against active and passive corruption as a reinforcement of the Code of Ethics Compliance provisions. (Gruppo Lavazza, n.d.).

Economic Factor. In the past two years, Covid-19 heavily impacted the economy by bringing multiple losses for businesses around the globe. However, Lavazza Group published their annual report and recorded favorable

sales growth rates in all markets; even during the pandemic. Significant coffee sales were made in Italy, France, and expanding markets such as North America and Germany. In addition, Lavazza Group signed a new partnership with YUM China, which strengthened and extended product distribution in the Asian market. And by 2025, Lavazza Group is predicted to open over 1,000 Lavazza coffee shops in China (Gruppo Lavazza, n.d.).

Social Factor. It is vital for the firm to invest a lot of its efforts in promoting sustainability, occupational health policy, and the physical environment. For LG, sustainability is a priority, and the organization's main mission is to continue developing the "Sustainable Packaging Roadmap" by producing reusable, recyclable, or compostable packaging by 2025. On an occupational level, LG safeguards its workers' health and safety. LG is very concerned with environmental protection, energy and resource savings, and developing its business in a circular economy logic as a sustainability paradigm (Gruppo Lavazza, n.d.). LG operates and conducts its business in multiple countries; therefore, the company must have strong social values and promote a healthy working environment.

Technological Factor. LG has been constantly on the move with technological innovations and studied how to implement them. One of Lavazza's smart innovations is a coffee machine integrated with Alexa. The qualities of this smart coffee machine and its voice features are unique. This coffee machine allows the user to ask Alexa to make coffee, and it is even possible to ask for a hotter coffee if the beverage temperature is not the right one (Howatson, 2022).

Using PLEST analysis, we can determine whether each factor creates opportunities and/or threats for LG and the coffee industry.

Politics - international trade and purchasing raw materials from other countries is a potential threat because there are no reassurances or protection against international politics. In addition, the possible imposition of tariffs represent a significant threat to the firm since the prices of raw materials can constantly change. On the trade side, Lavazza is actively engaged in taxation issue, allowing the firm to avoid fiscal and trade issues. (Threat)

Legal - there are multiple laws that companies have to comply with. The laws are also constantly changing, and firms must be updated with codes to ensure that the organization does not violate them, which could be seen as a threat. Lavazza is very invested in following and enforcing the anti-corruption law, and the Group will have a "zero-tolerance" approach to those who violate it. (Threat)

Economic - the economic situation could have been better for the past two years due to Covid-19 although Lavazza Group has recorded favorable sales growth rates in different international markets. In addition, Lavazza signed a new partnership with YUM China, which is seen as an opportunity because the firm will have a chance to extend product distribution into the Asian market. (Opportunity)

Social - Lavazza is committed to prioritizing social matters such as sustainability, occupational health policy, and the external environment's safety. Lavazza is fully invested in sustainability by promising to continue producing sustainable packaging. Another important factor Lavazza's Group is always working on is creating a safe environment for its workers, and this is an opportunity for the company to have a good impact on public opinion. (Opportunity)

Technological - Lavazza Company fully invests in technological innovations to provide unique products to its consumers. In fact, innovations such as coffee machines that can make coffee by using voice control create an opportunity for the company to keep up with the trends and provide modern products. (Opportunity)

Overall, this PLEST analysis indicates that there are more opportunities than threats. (O>T) However, LG cannot totally mitigate denoted threats of political and legal matters, yet can follow all of the laws and conformities to maximize the company's productivity. It is in LG's power however to partially control the direction of some of the economic, social, and technological opportunity factors that impact the firm by expanding its business into new markets, working on sustainable projects and technological innovations.

Industry Analysis - Five Forces



Macro forces tend to impact multiple industries simultaneously although not necessarily in the same way (i.e. rising interest rates have a negative impact on real estate prices yet a positive impact on financial institutions with variable rate products). An industry analysis then looks at industry-specific factors including: barriers to industry entry, bargaining power of suppliers and buyers, the relative impact of substitute products/services and the rivalry within the industry. (See Parnell 2021 for details.)

1. Competitive rivalry: Lavazza Coffee faces competition from several companies, including Starbucks and Nestle in the US market. Despite being smaller than its competitors, the Italian company prides itself on being a niche product that exclusively offers high-quality products to its customers rather than being perceived as a fast-food chain (Landini, 2017).

2. New Entrants: Lavazza Group has been expanding its presence in various markets with confidence. Initially established in Italy, the company has gradually extended its reach across Europe, the United States, and other significant nations globally. Over the past few years, Lavazza has successfully enhanced its distribution network and currently provides its products to more than 140 countries worldwide (Lavazza, n.d.).

3. Power of buyers: The value and price of Lavazza products are determined by the buyer's power. With numerous competitors in the market, consumers have the flexibility to choose products based on price, quality, and taste. Lavazza, a renowned brand in Italy since 1985, made its way to the U.S. in 1990. Lavazza offers a range of products, including Whole Bean Coffee, Ground Coffee, Capsules and Pods, Keurig K-Cup® Pods, Coffee Machines, and Barista coffee served at select Lavazza coffee shops. Customers who prefer Lavazza products are those who appreciate the taste and superior quality and are willing to pay an extra dollar. This unique selling point positions the Lavazza brand as niche and exclusive (Lavazza, n.d.).

4. Power of suppliers: According to Lavazza Group, they have access to a diverse range of coffee suppliers from over 50 countries. The company holds the power to choose the most suitable supplier rather than being dependent on a single source. Furthermore, the suppliers' influence is limited due to the abundance of coffee and tea suppliers globally (Lavazza, n.d.).

5. Threat of substitutes: The coffee industry faces a high risk of substitutes, as many coffee products can be easily replaced by other hot and cold beverages, most notably tea. To cater to the diverse preferences of customers, Lavazza Group strives to expand its range of products. For those who prefer to enjoy coffee at home, coffee beans and ground coffee packages are readily available at supermarkets. For those who prefer barista-made coffee, there are coffee shops to visit. And for those who use Keurig coffee machines, K-Cup® Pods are offered as a solution (Zippia, n.d.).

Overall the coffee industry is relatively competitive given the multitude of players in the industry yet this force is balanced by the fact that the buyers are relatively price insensitive as indicated by the emergence of a large differentiated, high quality wholesale and retail market segment.

LG: Internal Analyses (Strengths/Weaknesses)

Resource-based Analysis [VIRO]

VRIO Model Template

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<https://www.slidegrand.com/templates/vrio-model-powerpoint-template-designs/>

Barney (1977) has suggested that there is a way of looking at resources that will inform decision-makers about whether or not their resources are of high or lesser quality and value relative to the firm's generic strategy. He suggested a test which he referred to as the *VIRO framework* which proposed four different tests of a particular resource in order to determine its true tactical value to the firm. The VRIO framework is a valuable tool for analyzing a company's internal resources and capabilities and to assess whether these resources can provide the firm a long-term competitive advantage. (Jurevicius & Gasparik, 2023).

Value: Lavazza Group has established a multitude of valuable partnerships that span across 140 countries. Along with its global reach, the Lavazza brand is highly regarded and recognized, contributing to its overall value. Despite coffee being a commonly traded commodity, Lavazza stands out due to its superior sourcing of high-quality beans and its exceptional roasting processes, resulting in a premium product (Annual Report, 2021).

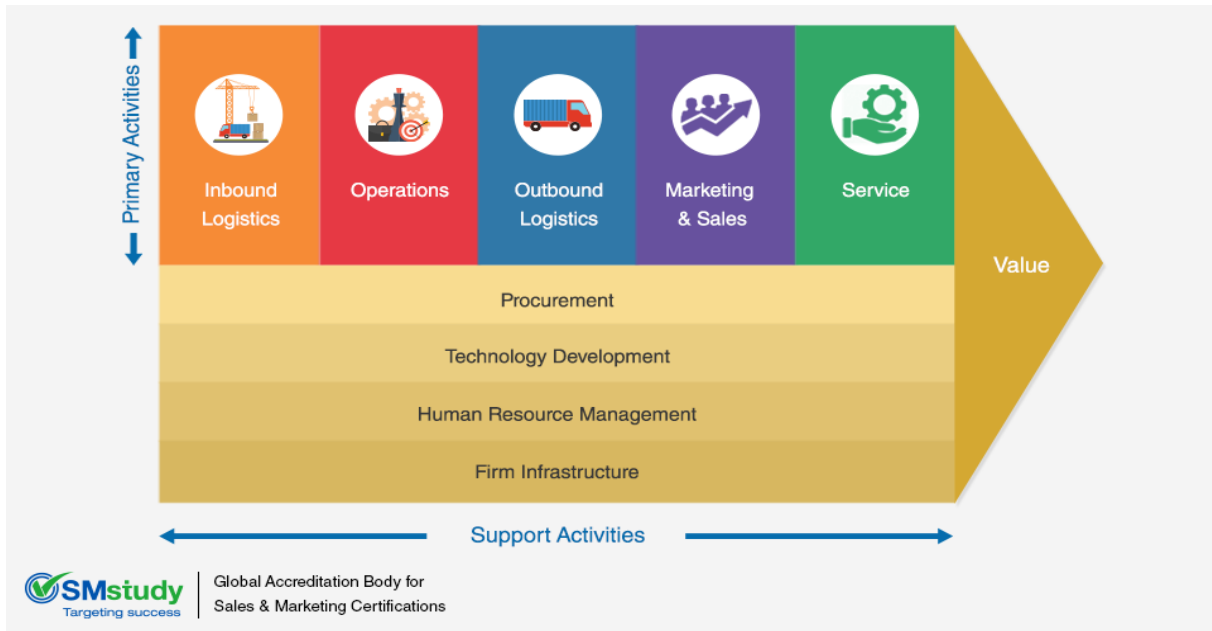
Imitability: Lavazza Group owns multiple intangible assets which protect the company from imitability. In fact, Lavazza Group has invested multiple resources to create trademarks, copyrights, patents, and goodwill to protect its brand and products. However, it is not difficult to imitate Lavazza products, as there are multiple coffee companies on the market that produce coffee and coffee machines (Annual Report, 2021).

Rareness: The Lavazza Group maximizes its resources by acquiring raw materials, converting them into finished products, and distributing them to the market. While this process is not rare, it remains a valuable asset to Lavazza Group's competitive advantage (Annual Report, 2021).

Organization: The Lavazza Group possesses a variety of tangible and intangible assets, including trademarks, copyrights, patents, goodwill, machinery, and real estate properties situated in various countries. These resources enable the company to make the most of what they own. (Annual Report, 2021).

In summary the VIRO analysis indicates that the uniqueness of the brand, regardless of the duplicability of the products, leads to a somewhat sustainable advantage to the firm.

Value Chain Analysis



<https://www.smstudy.com/article/what-is-value-chain-analysis>

In the production and coffee market, *Lavazza inbound logistics* include sourcing coffee beans directly from sustainable farms which adhere to their strategic plan. This may include producers who pay fair wages and do not engage in contemporary slavery. From the *operational* side, Lavazza Group is spread across Europe and has a site in the US. And the green coffee arrives from South America at these Lavazza-owned facilities, ready to be roasted to specification and packaged for consumer use (Business Wire, 2018).

The *outbound logistics* are complex for Lavazza since the company currently doesn't own physical retail. Lavazza relies on its partners around the world who provide shelf space and utilize the Lavazza brand in their retail shops, restaurants or supermarkets. Therefore, the shipping and handling of Lavazza products and the logistics are handled by third parties (Lavazza, n.d.).

In the *Marketing and Advertising* field, Lavazza provides global support for its brand through digital, print, and social media. In addition, Lavazza Group takes total leverage of current technology since the company can gather real-time feedback from its consumers and comprehends the assistance needed after the sales. The value chain is described in detail in the earlier discussion of their business model. Lavazza aims to offer high-quality products obtained by a sustainable model based on innovation, passion, and competence (Lavazza, n.d.).

Human Resource Management is an important department in Lavazza's operations and value chain. Lavazza Group's performance management process mainly focuses on coaching activities. Lavazza educates its employees and industry operators by sharing the Employee Code of Conduct and Ethics. These codes are vital for internal communications based on moral, ethical, and sustainable conduct.

Last but not least, from a *Procurement* perspective, Lavazza has imposed that all of its suppliers must meet human rights, environment protection, and business ethics set by the Group as part of their five-year strategic initiative (Annual Report, 2021).

Business Functional Analysis

BUSINESS FUNCTIONS

Main Business Functions



This spreadsheet below includes an overall analysis Lavazza Group’s functional score based on its strengths and weaknesses (Financial, Marketing, Technology, Human Resource Management, General Management, Production, and Operations Management).

Information retrieved from (Annual Report, 2021); (Gruppo Lavazza, n.d.); (Café du Jour, n.d.); (Parnell, 2021).

In terms of *finances*, the Lavazza group made impressive progress in 2021. Revenue increased by 10.7% compared to the previous year, and the net financial position was positive at €283 million. Operating cash generation also rose to €203 million, indicating the group's strong and stable position (Annual Report, 2021). However, the company must remain vigilant about future investments and closely monitor the volatile rate environment and inflation. The foreign exchange rate can change abruptly, leading to a significant revaluation of the US Dollar against the Euro, which could affect the firm's financial performance.

Functional Strategy/Subfunction	Strengths	Weaknesses	Rating (1=very weak; 10=very strong)	Averages
Financial				8
<i>Cash Management</i>	Positive cash generation provides a strong financial position.	Susceptible to a volatile rate environment and inflation.	9	
<i>Capital Raising</i>	As a private enterprise they are able to go raise debt from the capital markets even under the backdrop of a pandemic.	Inability to raise additional funds via common stock sale.	7	
<i>Investments</i>	Significant investment in PP&E for operations. Proper hedging of coffee price risk and FX.	Free loan to use model in substitution of wholly owned retail locations.	8	
Marketing				7.75
<i>Pricing Strategies</i>	High value proposition, gourmet coffee market.	There is the potential for lost revenue as the coffee may be capable of selling for more.	9	
<i>Promotion Strategies</i>	Conducts promotional advertising as well as trade fairs and events. Leans on advisory and market research.	Required as lack of owned physical locations do not directly promote the brand.	8	
<i>Product/Service Strategies</i>	Multi-faceted sales channels from at home and retail consumption	No direct control/ownership of "Away From Home" consumption.	7	
<i>Place (Distribution) Strategies</i>	Global brand in over 140 countries. Global Vision as an independent key player in the market.	Susceptible to logistic issues and supply chain problems managing a global presence.	7	
Technology				7
<i>Research & Development</i>	Adaptation to market needs as well as expansion of product line to meet consumer demand.	Diversification from core competency might dilute the brand and expose it to unnecessary risk.	8	
<i>Information Technology</i>	Consolidation and investment in IT to strengthen processes and protect against bad actors.	Global presence with multiple partners and suppliers increases difficulty and can strain IT budgets.	6	
Human Resource Management				8
<i>Human Capital and Knowledge Management</i>	Advancements in quality of working conditions. Investments in Digital HR.	Catering to the benefit of employees have increased costs by 1.7%(excluding bonuses).	9	
<i>Knowledge and Competitive Advantage</i>	Continuous improvement in professional development and performance, training and internal communication.	Not diverse enough as the company is headquartered in Italy	7	
General Management and Production and Operations Management				7.5
<i>Total Quality Management</i>	Aims to offer high-quality products obtained by a sustainable model based on innovation, passion and competence.	Just begun 5 year strategic plan to account for this new model into the company.	9	
<i>Purchasing & Supply Chain</i>	Suppliers meet human rights, environment protection and business ethics.	Difficult to enforce, self attestation of suppliers. Relies on outside organizations to reveal bad actors.	6	

Overall Score 7.65

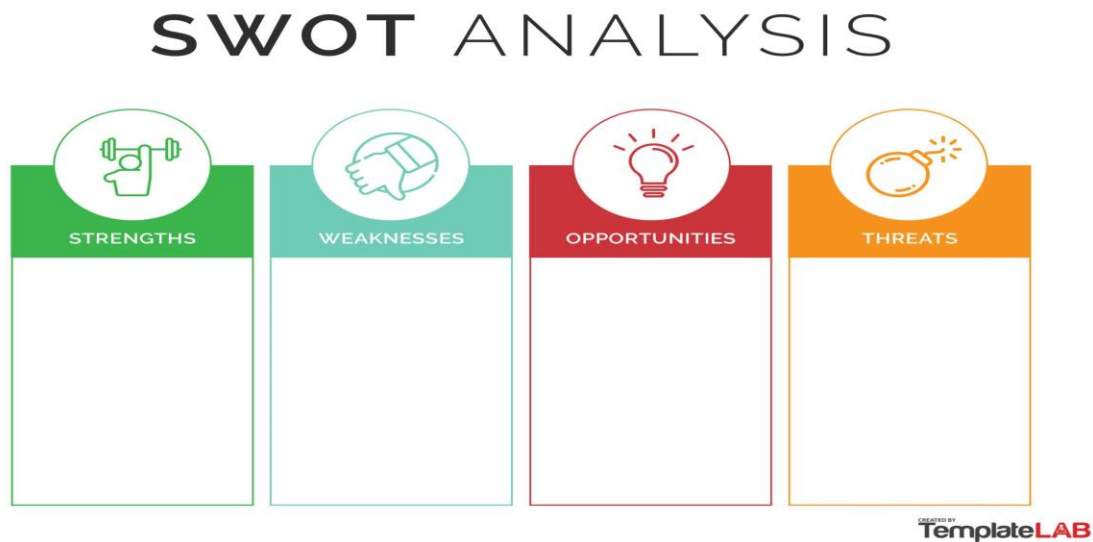
Lavazza Group has been investing around €45 million in promotional advertising from a *marketing* perspective. The rise in commercial and sales costs is mainly due to increased expenses in advertising and promotional services, trade fairs and events, advisory and market research, entertainment and hospitality, and transport (Annual Report, 2021). Despite having a well-designed promotional marketing strategy, Lavazza Group faces the disadvantage of not having physical locations to promote their brand directly. (Gruppo Lavazza, n.d.). (Annual Report, 2021).

From a *technology* perspective, Lavazza Group has constantly been searching to optimize production processes and organization, enhance resources and protect against frequent cyberattacks. (Gruppo Lavazza, n.d.). In addition, the company has increased its intangible and fixed assets in the process, mainly referring to new IT (Information Technology) investments made in the reporting year to strengthen the Group's integration process; these investments were mainly obtained through external sources (Annual Report, 2021). However, a factor that the firm must consider regarding IT investments is how to restrain budget expenses on this matter, especially when it comes to expanding this technology globally. A potential solution for Lavazza Group could be partnering with IT companies rather than investing in new technologies.

Human Resource Management: in 2021, Lavazza Group was nominated with a certification of the "Top Employer," which ranks Lavazza among the most advanced companies in terms of quality of working conditions for its employees (Annual Report, 2021). LG could make some improvements regarding employee diversification. Though the firm is international, most of its employees are Italians.

From a quality view, Lavazza has constantly been aiming to offer high-quality products thanks to a sustainable model based on innovation, passion, and competence. Nevertheless, from a *Purchasing & Supply Chain* view, there are some changes that LG should consider. In fact, Lavazza had some difficulties enforcing the self-attestation of suppliers. Therefore, Lavazza Group's green coffee required all of the suppliers to recognize and confirm that no coffee comes from plantations included in the "Transparency list on contemporary slavery in Brazil" issued by Danwatch, nor from plantations or suppliers who may not fully comply with the law (Gruppo Lavazza, n.d.)

Lavazza Group: Results of SWOT Analyses



<https://lesboucans.com/downloadable-swot-analysis-template-for-your-needs/>

The SWOT analysis is an essential tool for companies to formulate strategies covering all levels of the organization. It summarizes the strengths and weaknesses of the organization's internal resources and the opportunities and threats presented by its external environment. Strengths and weaknesses are assessed based on the analysis of organizational, physical, and human resources, while opportunities and threats are evaluated through the analysis of the macro environment and industry (Parnell, 2021). The SWOT analysis of Lavazza Group is as follows:

Strengths and Internal Strategic Factors

LG boasts various strengths, including its well-known brand name and global recognition. This Italian coffee brand has gained immense popularity worldwide, and its reputation continues to soar. In 2022, Lavazza

was even ranked among the top 100 companies with the best reputation in the world by "The RepTrak Company" in their "2022 Global RepTrak" report. Additionally, Lavazza's financial position is favorable, with \$283 million and an operating cash flow of \$203 million - an improvement from 2020's \$125 million (RepTrak, n.d.). Another strong factor about Lavazza's brand is its increasing number of distributing channels and partners where the firm sells its products. The Lavazza Group is dedicated to offering both At Home and Away From Home consumption which is distributed across all sales channels: Retail, Food Service, Office Coffee Service (OCS), and Vending (Annual Report, 2021). The firm's strong brand strong presence ensures that appropriate solutions are readily available to all consumers and customers at any given time of the day.

The Lavazza coffee brand has a well-established global supplier network. The Lavazza Group procures its coffee beans from various countries, including Colombia, Brazil, Costa Rica, Guatemala, Indonesia, Uganda, and Honduras. To ensure sustainable production, the company has implemented the ¡Tierra! Project, a special sustainable agriculture program in Colombia, Honduras, and Peru. This program is focused on enhancing the quality of coffee and improving the environmental and working conditions of the communities involved (Italtrade, n.d.). Lavazza Group has a strong advantage due to its diversified business model, which includes introducing innovative coffee products and technologically advanced coffee machines. This factor contributes to the company's internal strengths. (Gruppo Lavazza, n.d.).

What is more, Lavazza Group is highly regarded for its excellent human resource practices. The company is an active member of "The Coffee Coalition," a global network committed to preserving the environment and upholding fundamental human and labor rights through transparency, traceability, and education. Moreover, Lavazza has been awarded the prestigious "Top Employers Italy 2021" certification for the third year in a row, highlighting its ongoing dedication to promoting the welfare of its employees (Gruppo Lavazza, n.d.).

Weaknesses – Internal Strategic Factors

Lavazza Group's internal weakness is its public perception of being an expensive coffee brand, which could lead to lower consumer consumption. Another negative point for Lavazza is that this brand currently has no direct ownership of shops, and all its products are sold on the market through third parties (Gruppo Lavazza, n.d.). The imitability of products is another internal weakness, as Lavazza Group doesn't own the most unique products in the market, and there are many competitors in this industry. Therefore, the imitability of products makes it easy for other companies, coffee shops, and food chains such as McDonald's McCafé, Starbucks, or Dunkin Donuts to offer almost the same product as Lavazza.

Opportunities – External Strategic Factors

LG is present on five continents, in more than 140 countries worldwide, and operates through both direct subsidiaries and a broad network of distributors. Lavazza's industrial system consists of nine manufacturing plants: three in Italy; the Carte Noire plant in France and that of Kicking Horse Coffee in Canada; the Lavazza Professional plants (two in the United Kingdom and one in the United States); and one production hub in India, which serves the local market (Gruppo Lavazza, n.d.). Lavazza is in constant expansion, and the Group has always been seeing opportunities in foreign markets, and the firm's path of international growth is continuing with China and Australia. With an extraordinary market and strong potential, these two countries represent an excellent opportunity for Lavazza Coffee to insert its brand (Gruppo Lavazza, n.d.).

Threats – External Strategic Factors

Competition with low-cost coffee sellers could be considered as one of the external threats for Lavazza Group, as multiple coffeehouses offer products at much more affordable prices. Lavazza has multiple competitors who are not just small family-owned coffee brands but multinational companies like Starbucks, Dunkin Donuts, Nespresso (owned by Nestle), and McDonald's. Another threat for Lavazza could derive from third-party and their potential strikes. In fact, Lavazza's entire supply chain consists of many third-party contractors and stakeholders, which could make it challenging to manage the entire chain without facing any

potential threats from the external environment. Coronavirus is also categorized as an external threat and heavily impacted Lavazza Group. Covid-19 mainly affected the supply chain and slowed the import and export of coffee beans. In addition, during the pandemic, Italy was the most impacted country with Covid cases and strict lockdowns, a country where Lavazza Group has its headquarters (Annual Report, 2021).

Moreover, the coffee industry is facing another serious threat globally: the rising price of raw coffee beans. The prices of raw coffee beans, especially Arabica, have increased drastically during Covid-19 due to concerns over availability, hoarding, and supply chain disruption. Natural inconveniences, such as the drought in Brazil and frost, significantly impacted coffee beans' growth. Arabica coffee prices at one point went nearly twice their levels in 2020 (News, 2022). This means that every time beans prices rise, Lavazza Group will have fewer profit margins.

Results of SWOT Analysis

Given the results of SWOT analyses, it is possible to determine that Lavazza Group's strengths outweigh its weaknesses ($S > W$). Lavazza has built a strong company and is expanding quickly and firmly due to multiple successful internal strategies involving its organizational, physical, and human resources. On the other hand, some weaknesses could be resolved, such as the coffee brand pricing perception. Overall, Lavazza Group owns more strengths than weaknesses.

However, it is important for the Lavazza Group to focus on the threats more than the opportunities. The firm should be aware that these threats could have critical consequences –threats outweigh opportunities ($O < T$). In the past three years, the global market has been hit heavily by supply chain issues and the increase in prices, and it all started with the external threat of Coronavirus. Even though Lavazza Group is pursuing an incredible strategy of expanding in new markets and creating new opportunities for its firm, external threats could also affect this expansion. The rise in the price of coffee beans is putting a hardship on multiple coffee companies by creating instability for multiple coffee producers and distributors.

Overall Success Factors based upon SWOT Analysis

The Lavazza Group has effectively aligned its mission strategy with the market, resulting in a good strategic fit. The firm's success can be attributed to the company's ability to utilize its strengths and opportunities to overcome weaknesses and threats. To gauge the effectiveness of these strengths and opportunities, it is essential to identify the company's key success factors.

Over the past few decades, the worldwide coffee industry has experienced significant growth, and experts predict that it will continue to expand. However, opening a coffee shop in a high-traffic area alone is insufficient to thrive in this business. To be successful, coffee companies must focus on two critical key factors: product quality and marketing strategy. These key factors are crucial for any coffee business to succeed (Berman, 2017).

In Lavazza's coffee example, there are not two but five key factors that determine its profitability and success which are counted as the firm's strengths and opportunities for expansions.

1) *Product quality*: Lavazza's product and quality are among the most significant factors for its success. The company sources its coffee beans from highly selected cultivations, blends them, and roasts them uniquely. One of the Group's goals is to spread the excellence of its high-quality coffee and the project sign of sustainability and innovation, Made in Italy (Gruppo Lavazza, n.d.).

2) *Innovation*: Lavazza Group has constantly invested in product line innovations and has been able to keep up with customer preferences and adapt to market trends. Additionally, in 2010, Lavazza Group opened "The Innovation Center," a center entirely dedicated to the research methods of innovation, which the Group considers indispensable for its growth and competitiveness. In the last ten years, due to ongoing investments in research and development, over 85 new patents were registered for coffee machine innovations that improve its efficiency and sustainability (Gruppo Lavazza, n.d.).

3) *Branding and Marketing*: Lavazza Group has invested a good amount of capital in international brand recognition and marketing strategy. Lavazza has a great ability to communicate its values, history, and

commitment to sustainability through multiple communication channels such as advertising, commercials, strategic partnerships, social media, and international events such as EXPO Dubai 2020, US Open, and many others (Annual Report, 2021).

4) *Distribution Channel*: Lavazza Group has a vast distribution channel, and its brands are now present in over 140 countries through its subsidiaries, distribution partners, and nine production plants worldwide: three in Italy, two in the United Kingdom, one in France, Canada, and the US, plus a production hub in India. Lavazza Group can distribute its products through various channels such as physical stores, e-commerce, restaurants, or partner coffee shops (Gruppo Lavazza, n.d.).

5) *Corporate Social Responsibility*: Lavazza Group's commitment to sustainability and corporate social responsibility is a critical success factor for its business. Lavazza Group has always had sustainability, respect for the environment, and a focus on social impacts as one of its main priorities regarding its business model. In fact, in recent decades, Lavazza Group has been fully invested in promoting social initiatives that benefit local communities and sourcing the coffee beans from its trusted farmers (Gruppo Lavazza, n.d.).

Lavazza Group: Next Actions to be Taken

Lavazza should consider taking certain actions to expand and grow the firm. Specifically, two moves could prove more advantageous than others: opening a Lavazza-branded coffee shop and transitioning the Lavazza Group from a private to a public company.

There are multiple reasons why the Lavazza Group should contemplate launching their own coffee shops. Firstly, it would elevate the brand's fame and provide a distinctive customer experience. Additionally, it would enable Lavazza to have full authority over the brand's values and image. This would allow them to shape the atmosphere, design, and service to align with Lavazza's identity. Indeed, the key to a successful coffee shop is the quality of the coffee, which is a crucial aspect. (Budget Branders, 2022). Another factor that would benefit Lavazza in owning a coffee shop is the advantage of directly showcasing its range of products through its coffee shops. By using Lavazza Group's shops as a platform, customers can be introduced to different blends, origins, and brewing methods, allowing them to experience the full range of the brand's offerings. This can increase brand loyalty plus encourage customers to explore and purchase Lavazza products for home consumption (Budget Branders, 2022).

In addition, Lavazza can increase its market reach by opening a coffee shop. Coffee shops can attract a broader range of customers, some of whom may not typically buy Lavazza products in supermarkets or online. This would allow Lavazza Group to tap into the growing specialty coffee market and attract new demographics, giving them a more decisive competitive edge over other coffee brands (Addict, 2023).

Secondly, the Lavazza Group should carefully consider the various reasons for going public through an initial public offering and how this transformation would benefit the firm. The first benefit of going public for Lavazza could be raising significant capital by selling shares to public investors. This infusion of funds can finance various initiatives such as expanding production capacity, investing in research and development, acquiring competitors or complementary businesses, and funding marketing and promotional activities. Additionally, access to public capital markets provides a broader range of financing options to support the company's growth and strategic objectives (Emblem, 2017). What is more, when a company goes public, this allows existing shareholders, including the founding family and early investors, to monetize their investment by selling a portion of their shares on the public market. This selling action could provide liquidity, allowing shareholders to convert their ownership stakes into cash. It can also facilitate ownership transitions within the family or provide an exit strategy for investors seeking to realize their returns (Emblem, 2017). In addition, if Lavazza became a public company, it would have the option to use its shares to acquire other companies. This involves issuing shares as part of a merger or acquisition deal, which can help Lavazza to expand and strengthen its position in the coffee industry. This offer of shares can appeal to potential targets, as they can participate in the combined entity's future success and provide an alternative to deals based solely on cash (Emblem, 2017).

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