

Aalborg University  
Master of International Marketing



“Repositioning strategy of Brazilian coffee producer within its Global Value Chain via  
entering the European market”

Master Thesis

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## Executive Summary

The aim of the research in hand is to provide the Brazilian coffee producer, Grupo CMEW, with recommendation for the internationalization process when entering the European Market and its repositioning within the potential global value chain of the company. The authors decided to investigate the topic due to the importance and popularity of the coffee sector in many West European countries as well as after the consultation with the supervisor of the project, who later intermediated the connection between the researchers and the Brazilian Company.

The outcome of the research was mainly based on primary data collected during a one-week data collection study trip in Germany and United Kingdom. The aim of the data collection trip was to gather a significant amount of information in regards with coffee market trends, the consumer preferences and potential useful business partnerships that may be established by the Brazilian coffee producer with the European companies.

In order to solve the current business problem the report was divided in several different parts. The research begins with the detailed formulation of the problem followed by the methodological chapter where the objectives of the study and the approach to the research have been introduced. In the next part, the theoretical chapter, the relevant theories necessary to describe and investigate and understand the phenomena have been discussed, for instance internationalization theories, global value chain, foreign market entry modes, foreign market selection and product positioning.

Therefore, the main outcome of the project is the understanding of the steps that have to be undertaken by a coffee farmer in order to reposition within the global values chain and internationalize the business successfully with the aim of strengthening the brand perception and position as well as to increase the sales of the produced commodity. The management of Grupo CMEW can later use this project in case the company will decide to expand the business beyond the Brazilian borders, but also other companies being in the similar situation and possessing similar characteristics and targets may use this when expanding internationally

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## **List of Abbreviations**

EU- European Union

USA- United States of America

UK- United Kingdom

GVC- Global Value Chain

GDP- Gross Domestic Product

CGVC- Coffee Global Value Chain

FDI- Foreign Direct Investment

BCG – Boston Consulting Group

## Introduction

The main objective of the current thesis is to analyze the options for Grupo CMEW, a Brazilian coffee farmer, to reposition within the coffee global value chain and expand the operations towards Europe. The research will be focused on the countries from the Western part of the Europe, where many countries have a high coffee consumption.

The research takes a look at specific problems and opportunities in the coffee market, how the company can improve their margin and what is the most appropriate country to expand the business operations. To be able to identify the problems and the opportunities, the authors of the research performed a qualitative research based on the semi-structured questionnaire. The research was conducted with different owners of coffee roasters from Germany and coffee trading companies from United Kingdom, as well as with the owner of the company that is the main subject of the current study, Grupo CMEW. All of the interviews, except the one with Grupo CMEW which took place on Skype, have been conducted in person; both of the researchers being present. The interviews performed in Germany took place at the location of the companies, while the interviews and discussion performed in United Kingdom have been conducted at the London Coffee Festival.

The investigation starts from the well-known fact, in the coffee industry, that nowadays the coffee farmers from all over the world receive just a small share of the final price of a coffee product. This is also the case of the Brazilian coffee farmers, the country with the highest production capacity in the world, where many producers are exporting an important quantity of green coffee beans but not the end product. Therefore, it is important for a coffee producer to consider repositioning within the value chain and performing more of the production steps in the company, rather than selling the green coffee bean, in order to grow the business.

In order to reposition, Grupo CMEW could consider many approaches. It is possible to establish partnership with companies that are already running the activity in the Western European coffee market or as well to set up an own facility in

the target country. This issue was investigated in the analysis part and later on, and the outcome of the investigation is presented in the recommendation part of the paper.

## Problem Formulation

Consumers around the globe appreciatively enjoy tremendous amount of coffee, every day. The coffee consumption is set nor by the age, neither by the time of the day. It is consumed early in the morning, after the lunch or even in the evening at variety of places including home, work, cafes, bars and restaurants. The preparation methods vary depending on consumer's preferences. Coffee is mostly taken due to its unique aromatic taste as well as its stimulating effects.

Over thousand different aroma kinds have been identified in coffee, which gives this beverage complexity as well as diversity (Chu, 2012). Consumers drink this beverage for either emotional or rational reasons. Emotional count in the enjoyment of the beverage leading to a relaxing time or a mood improvement, whereas rational take into account stimulation, concentration improvement or a need of wakefulness. Lately but not lastly, this popular drink is also consumed due to social integration, which may be confirmed with 400-years old history of existing places, where people meet and enjoy coffee, called coffee houses (Chu, 2012).

Coffee's great importance in the economy, counts not only for the producing countries but also for the global economy. It is the second most traded commodity in the world after petrol. There are around 70 countries producing coffee, but three countries, Brazil, Vietnam and Colombia, stand behind more than a half of the entire production (van Hilten & Fisher, 2011). In 2004, for twelve countries, the green coffee beans were the top agricultural product exported and nowadays about twenty-five million farmers over the world are working in the coffee production, which represents their main source of income.

In 2014, Brazil managed to export more than 2.1 million tons of both, Robusta and Arabica coffee beans, which are the most common types of beans. The second largest producer in the world is Vietnam, who exported in the same year 1.5 million tons of only Robusta beans (International Coffee Organization, 2014).

Even though the coffee is mainly produced in Latin America, Africa and South Asia, the highest consumption is recorded in Europe, United States and Japan. European Union is the largest importer of coffee; in 2013 the amount of imports reached 3 million tons, which represents about 45% of coffee producing countries'

exports in that year. Moreover, a part of the imported coffee was re-exported after the roasting process or even as green coffee (European Coffee Federation, 2015).

In the European Union (EU) most of the coffee import comes from Brazil. In 2013, 28% of the total coffee import came from the Brazil, comparing it with 2011 the decrease of 2,5% was tracked. On the other hand, the second country exporting large quantities to EU is Vietnam. This country managed to increase the sales with more than 3.5% from 2011, with the share of 23.5% of the imports in EU (European Coffee Federation, 2015).

As mentioned before, Europeans are leading in the consumption capacity. The EU shows the highest coffee consumption per capita, with an average of 4 kilos of coffee consumed in one year per inhabitant. The highest consumption per capita is reported in Finland, where the average is 12 kilos, followed by Austria with about 9 kilos and another Scandinavian country, Sweden, showing the consumption of about 7 kilos. Regarding the consumption counted in total volumes, the largest market is definitely Germany. The annual consumption is 425.191 tons of coffee, making Germany the 3<sup>rd</sup> largest consumer in the world after United States of America and Brazil (Euromonitor International, 2014).

The issue of many coffee-producing companies is the fact that they are positioned at the beginning of the value chain. Therefore, most of the coffee producers are exporting the product at the initial stage of the production, mostly green beans. The value is being added throughout the entire value chain, therefore the margin produced at following stages of the Coffee Global Value Chain (GVC) is not taken by producers, but by the other actors responsible for those other processes such as roasting, graining, packing as well as selling. The previous report states that in 2002 a coffee-producer (farmer) earned on a package of mainstream coffee (250 grams) sold in Netherlands only 10 eurocents compared to the retail price of €1.57. In this particular case, the coffee-producer's share of the price is only 6.47 percent (Slob, 2006).

The concept of value chain creation covers all activities generating revenue, undertaken along the entire supply chain of a product, from the start of the production until the final consumption. Similarly to other commodities within the agricultural business field, activities involved in the process of coffee production are

split between coffee producing lands, mostly in charge with the export of green beans and consuming countries, transforming delivered green beans into the final product to the final consumption (International Coffee Organization, 2014).

Due to a recent increase in the world coffee prices, an increase in value earned by exporters has been tracked in most of the exporting countries. Additionally, the type of consumption is divided in two groups based on the position in the value chain. Developed countries refer to “out-of-home” consumption, while exporting countries or developing markets accounts predominantly for “in-house” consumption (International Coffee Organization, 2014).

As it was discussed above, the European coffee market is attractive for companies involved in the coffee business but at the same time it is significantly heterogeneous market. The current leaders on the market are international corporations such as Nestle or Jacobs Douwe Egberts, which cover almost all the segments of the market, roasted beans, ground coffee, instant coffee or single serve coffee. However, the situation may differ from country to country and therefore it is important for new players to find the niches and apply effectively their knowledge and competencies to achieve successful results. In order to identify a market potential and opportunities or the threats it is important to develop a broad market analysis which covers aspects regarding the macro-economical environment of the countries, coffee consumption by different segments or the analysis of current players on the market of interest.

The project is based on the Brazilian coffee producer “Grupo CMEW” and its way of internationalization attempt in to the European market, with main focus on the Central and Western Europe. Secondly, the further the commodity producer moves within the global value chain, the higher profits he obtains. By repositioning the “Grupo CMEW” further within the Global Value Chain, the company will gain higher margin share. Therefore, the coffee producers from exporting countries are trying to get as far as possible within the GVC in order to increase their profits.

Problem statement:

“How can the Brazilian coffee-producer adjust its position within the Global Value Chain by entering the European market?”

## Methodology Chapter

The first chapter, so called Methodology Chapter, is dedicated to explain readers the plan of the action, in other words how was the entire research or knowledge creation conducted. First part, Theory of Science introduces the researchers' philosophical view of business environment where the research takes place. The latter part, Methodology, defines the business research process, more specifically how and via which undertaken steps was the knowledge created. As seen in the first figure of this study, found below, the ultimate presumption of researchers impacts the chosen paradigm or philosophical view and vice versa. Philosophical view goes in line with the methodology of the knowledge creation, therefore all of those aspects need to share the same foundations or directions (Arbnor & Bjerke, 2009).

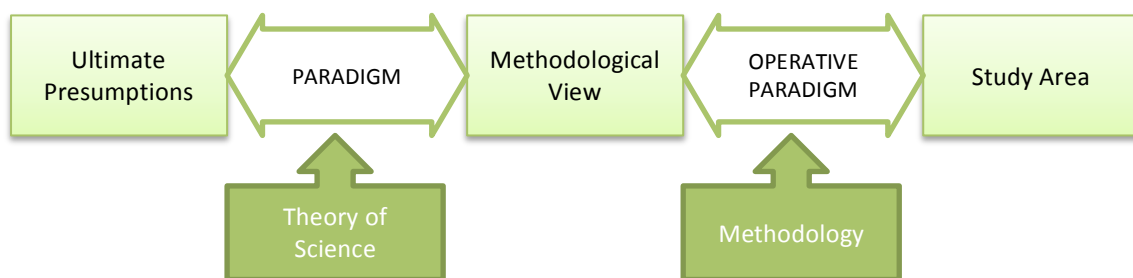


Figure 1 Theory of Science and Methodology (Source: own creation based on Arbnor & Bjerke, 2009)

## Theory of Science

The authors of the current study decided to follow Arbnor and Bjerke's methodological approach for creating business knowledge. The business methodology is the process that guides the researcher in one direction or another, having at the base of its developments contributions from philosophy, logics, mathematics and sociology. Moreover, the previous mentioned authors describe the methodology as a "mode of thinking, but also a mode of acting" consisting of different concepts that are defining the steps and the links needed in the process of searching and creating business knowledge (Arbnor & Bjerke, 2009).



from the subject of the research, in this way following a neutral point of view. This means that, the researcher perceives that reality is based on facts and furthermore, the analytical approach claims that the truth cannot be changed by the researcher's point of view (Kuada, 2008).

The systems approach proposed by the authors Arbnor and Bjerke (2009) is based on the fact that every social individual, group, community or organization constitutes a system having different elements that are related between each other. In order to understand them and determine the reality, the researcher firstly needs to understand the relationships and the processes between them.

The systems approach views the reality as a system or consisting of many different systems which consists of static factors, for instance structured on regular and non-regular processes, suggesting that reality even though is objective is dynamic and changing continuously (Arbnor & Bjerke, 2009). The authors state that, analyzing how changes in one part of the system can affect other parts of the system will guide the researcher to understand and build the reality. On the other hand, looking from the researcher perspective the reality does not consist of the sum of its parts but rather the truth and the reality is the system built by the researcher (Arbnor & Bjerke, 2009). As it was mentioned by the authors Arbnor and Bjerke (2009) *"the system approach explains or understands parts through the characteristics of the whole"* emphasizing on the specific differences between the analytical approach and the systems approach.

The last approach proposed by Arbnor and Bjerke is the actor's approach which has important differences to the previous two approaches described before. In contrast to the analytical and the systems approach, the actor's approach is based on the assumption that the reality is subjective to the researcher, meaning that the truth and the reality is made by the researcher's perspective over the facts (Arbnor & Bjerke, 2009). Author John Kuada (2008) describes the actors approach as an unconventional approach to research, and states that the reality in the actor's approach is created by the researcher during interaction with other actors from the business area of interest or from the social group.

The actor's approach emphasize on concepts like subjectivity, interaction between individual or organizations and knowledge generated through practice

(Kuada, 2008). According to the view proposed by Arbnor and Bjerke, the researchers following this approach, make their future decisions based on the previous personal experience. In other words, the reality is built between individuals that have direct interaction and share knowledge.

### Chosen Approach

It is inappropriate to say that one of the methodological approaches described above is better than the other two, each of them having different characteristics that make them unique. However, each one of them differs more or less from each other, which in the end will provide notable differences in the results. It is in the researcher's hand to understand and decide which approach is the most appropriate for the study. Given that, each of the previous mentioned approaches is based on a distinct belief and a different research design, the methodological choice will have a direct connection to the final results derived from the conducted study, as well as on the researcher's point of view over the facts.

The authors of the research in hand decided that the most appropriate methodological approach, used to decide on the relevant strategy for a Brazilian coffee producer to enter the European market and reposition itself within the GVC, is the actors approach. As it was described above, the actors approach is significantly different from the analytical and the systems approach. In the actors view, the reality is seen as a social construction, meaning that the reality is not independent to the researcher and the researcher has the freedom to interpret the situation over the reality (Arbnor & Bjerke, 2009). Moreover, according to John Kuada (2008), "*the actions, counteractions, reflections and thoughts*" are continuously influencing the process of market development, and therefore the business environment and the market arrangements are seen as being temporary in this approach (Kuada, 2008).

In the actors approach, the knowledge is generated while having direct contact to other actors from the business environment, such as customers, distributors or partners, and it is usually related to the qualitative research methods.

On the other hand, the actors approach has a few disadvantages. The statistical data collected from the interaction with the other actors is "*pallid and colorless*", the

information usually looking like a story that is remembered by other people (Kuada, 2008). Another disadvantage is that people directly involved in the business in order to have an effective result should usually collect the data; for instance, the knowledge should be collected by sales people, technicians or managers (Kuada, 2008). The following figure (Figure 3 Views Overview (Source: own creation based on Abnor & Bjerke)

) shows the differences between each methodological approach proposed by the authors Arbnor and Bjerke (2009).

	Analytical View	Systems View	Actors View
Prerequisites	<ul style="list-style-type: none"> <li>Existing analytical theory</li> <li>Verified/falsified hypotheses</li> </ul>	<ul style="list-style-type: none"> <li>Existing systems theory</li> <li>Analogies</li> </ul>	<ul style="list-style-type: none"> <li>Metatheories</li> <li>Constitutional factors</li> <li>General pre-understanding</li> <li>Interactive development of understanding</li> </ul>
Explaining/ Understanding	<ul style="list-style-type: none"> <li>Casualty</li> </ul> Cause-effect (explanation)	<ul style="list-style-type: none"> <li>Finality</li> </ul> Producer-product (explanation understanding)	<ul style="list-style-type: none"> <li>Dialectics</li> </ul> Thesis-antithesis-synthesis (understanding)
Result	<ul style="list-style-type: none"> <li>Cause-effect relations</li> <li>Logical models</li> <li>Representative cases</li> </ul>	Classifications: <ol style="list-style-type: none"> <li>Structural representative models</li> <li>Representative interpretations</li> </ol> <ul style="list-style-type: none"> <li>Classification mechanism</li> <li>Typical cases</li> <li>Partly unique cases</li> </ul>	<ul style="list-style-type: none"> <li>Descriptive languages</li> <li>1. Situational interpretive models</li> <li>2. Institutional models</li> <li>3. Process models</li> <li>Ideal-typified language               <ol style="list-style-type: none"> <li>Ideal typified cases</li> <li>Constitutional ideals</li> </ol> </li> <li>Emancipatory interactive action               <ol style="list-style-type: none"> <li>Creative action</li> <li>Direct action</li> </ol> </li> </ul>

Figure 3 Views Overview (Source: own creation based on Abnor & Bjerke)

## Methodology

After the discussions of paradigms in regards with this study a business research methodology needs to be introduced, explaining the process of applying, using and modifying chosen techniques, as well as reasoning why certain techniques were integrated (Arbnor & Bjerke, 2009). It is a description of a process of creating a knowledge in order to support the managerial decisions for all parts of the business unit starting with finance, through marketing, human resources, controlling, production and so on (Zikmund, Babin, & Carr, 2009). Research taking place in a business environment consists of collecting, analyzing and tracking of data with a

strong focus on methodology and its objectives. Undertaken observations, data collections and making statements are strongly influenced by the chosen view, in this process of knowledge creation it is the actors view as explained in the previous chapter (Arbnor & Bjerke, 2009). Those actions will later on provide researchers with foundations for business decisions. It is a modern way to achieve competitive advantage and increased share on the market (Sreejesh, Anusree, & Sanjay, 2014).

There are two main types of researches, *Basic Business Research* and *Applied Business Research*. The first one exists with the purpose to expand the general knowledge, fill the gaps in the existing theories as well as to test already developed business theory. The latter one, focuses on answering a specific business question in regards with a certain issue with main aim to support a decision-maker (manager) of a business unit (Zikmund, Babin, & Carr, 2009). The research in hand stands in the area of Applied Business Research, as a matter of fact that research is meant to be a significant support for decision-makers of Brazilian Coffee producer Grupo CMEW, in case of expanding its business operations internationally.

When developing a business research it is beneficial to take into consideration a managerial value of the study. This value depends on the firm's orientation, which is either *product-oriented*, *production-oriented* firm or *marketing-oriented* firm. The first one focus mainly on the technical superiority of the product, second one emphasizes on the effectiveness of the production, followed by the marketing-oriented firm where the main focus stands on the customer desires, beliefs and attitudes. The Brazilian coffee producer is primarily considered to be a production-oriented firm, but the aspects of other two orientations cannot be neglected (Zikmund, Babin, & Carr, 2009).

In the figure below, the simplified method of both, basic or applied research is shown. The scientific method is a process, where knowledge and evidence is used to reach a conclusion about the real world (Figure 4).

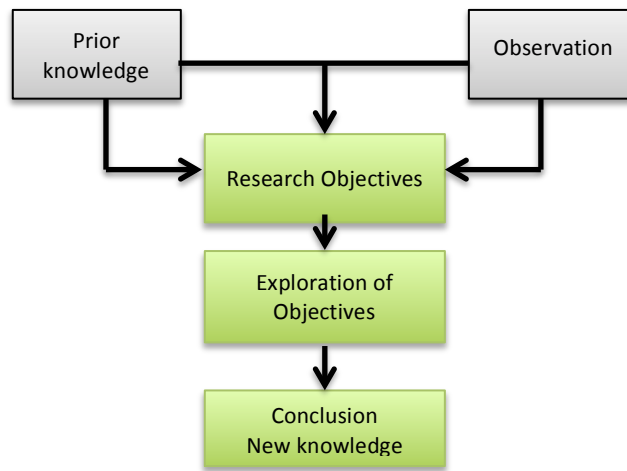


Figure 4 Scientific Research Method (Source: own creation based on Zikmund, 2009)

### Business Research Process

The business research process is a system of procedures containing interconnected activities, where every action strongly depends on the other parts of the process. Obviously, it would be too brave to conclude that every study follows the same techniques, but majority stands on the identical foundations of activities, as shown in the Figure 5. In order to keep the interpretation of the research clear and understandable, this framework was created by merging two sources; research process (Zikmund, Babin, & Carr, 2009) and research design (Sreejesh, Anusree, & Sanjay, 2014). The framework integrates simplified map of possible research designs within the entire research process. Highlighted cells show the techniques used in this study (Figure 5).

As seen in the flowchart below, highlighted cells shows the actual procedures of researchers showing several options of conducting certain data collection method. During the process of a problem definition, including also a definition of research objectives, there were used two types of exploratory techniques in order to go achieve desirable outputs.

As highlighted in the Figure 5, previous research was used to identify actual problems or issues on the coffee production market, more specifically in Global Value Chain of coffee production. The problems identified via this type of exploratory research are to be found in the Theory Chapter. Secondly, to confirm

problems found via researching previous researches as well as to get insight from the real and current business unit, with help of Aalborg University, more specifically with help of the supervisor of this study, Dorthe Serles, researchers got a chance to get in touch with an existing Brazilian coffee beans producer.

Therefore as seen in the figure below, the second type of the exploratory research was a survey, more specifically semi-structured interview. The owner of the company was interviewed via Skype with the purpose to identify actual considerations of this business unit. Obviously, the study objectives have been updated from interview to interview, as a matter of fact that every actor will bring new information, ideas and issues or considerations, which will be discussed with upcoming actors. Afterwards, this research takes always into account these facts with the main focus of answering those considerations and issues via proposing a business strategy based on what has been found out via data collection afterwards.

Based on the defined study objectives, which will be presented in the following paragraph and problem statement, the appropriate theory chapter was developed, which was later used in the empirical part of the study to be concrete, during the qualitative research. There are several types of qualitative research studies, that will be presented in the research design paragraph below, such as focus groups, in-depth interviews, semi-structured interviews observations and so on. For this research, semi-structured interview was chosen as the most effective way to achieve study objectives. It was performed with local roasters in Germany (ETTLI Kaffee, L-KaffeeRösterei, Donau Caffee, Henry's Coffee, KaffeeRösterei Konstanz, Espresso) as well as during The London Coffee Festival (DRWakefield, Falcon Speciality Coffee and other potential partners) attended by researchers. Such a qualitative research brought answers for the part where the study objectives have been discussed, developed at the exploratory stage of the research. The rest of them were investigated and answered via using Secondary data.

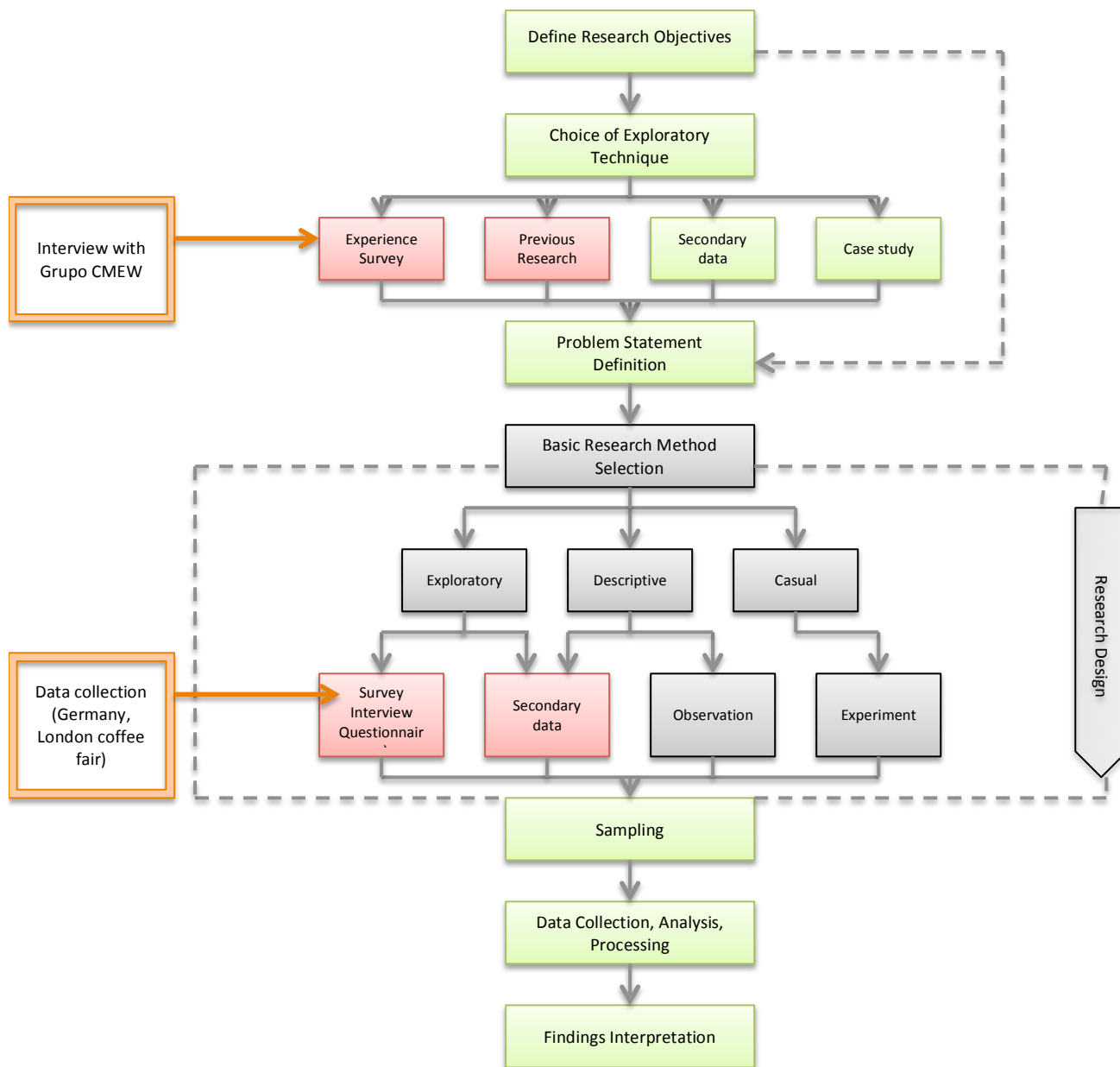


Figure 5 Business Research Process and Design (Source: own creation based on two sources: (Zikmund, 2009) & (Sreejesh, 20014)

## Defining Research Objectives

Before building any plan for the action, firm have to define where they would like to move and also how. The initial steps in the business research could be identified as defining goals to be achieved by performing a particular study. In the *Applied Version* of business research there must be a symbioses between two parties, organization and the researcher. Hence, this research is considered to be the applied version of

business research, the symbiosis mentioned above has to be met in this case as well. Researchers and company need to agree and understand identically the identified problem and then objectives will be stated (Zikmund, Babin, & Carr, 2009). As explained in the previous paragraph, the shared definition of the problem and objectives was identified via interview with Grupo CMEW. As soon as the study indicates a problem or opportunity, decision makers are may be able to define the solutions based on their experience or intuition. Nevertheless, in most of the situations the need of a deeper business research with solid facts and data in order to bring up information for decision-making is definitely needed (Sreejesh, Anusree, & Sanjay, 2014).

In order to define research objectives on a precise manner, exploratory research may be used, as it was in case of this research in hand. This kind of preliminary study process helps to sharpen the direction of the research and helps to transform generalized objectives in to well-defined issues. These appear via researching existing studies, interviewing knowledgeable individuals or informally investigate the topic. The business researcher can use processes such as previous research, pilot studies, case studies and surveys in order to gain clearer status of the problem (Zikmund, Babin, & Carr, 2009). In case of this study in hand, survey technique was used, more specifically, semi-structured interview with the owner of Grupo CMEW, before undertaking next steps of the research (Figure 5). Shortly, before the data collection starts, owner of a company, so called decision-maker, got in touch with researchers again in order to either approve, disapprove or change research design. Knowledge-creators need to hold a talk with a key decision-maker from the business world, in order to fully understand the motivation for the research process. This step is tremendously important, in order to bring desired results for a company. Based on this exploratory research it was figured out that a company would like to change its position within the Global Value Chain, move a step further with a coffee products production and via doing this, enter the European Coffee market.

The following step after the clear problem definition, there is a need of identification of research objectives. It clarifies the type of study that will be used as well as what tools are needed in order to make informed choices and decisions.

Research objectives push the rest of the research process, nevertheless decision-makers and researchers must agree that those statements are appropriate and will bring valuable information (Zikmund, Babin, & Carr, 2009). Since this study is based on the Methodology coming from actors view, the individuals within the business are tremendously important. Therefore, they play a significant role in the process of developing research objectives. Since the semi structured interview was conducted individually, so not with all interviewees at the same time, research objectives were rethought after every finished interview.

Decision Statement	Research Objectives	Thesis	#	Basic Research Method
<b>Which country possesses the best performance for the new product of Grupo CMEW?</b>	Coffee Consumption in European countries.	Germany show possesses the most appropriate performance for entering new products from Grupo CMEW	1	Exploratory (Secondary Data)
<b>Which type of a coffee product shows the best potential within the EU market?</b>	Consumption and demand of particular types of coffee in chosen country	Coffee capsules show the best potential as a segment with increasing consumption.	2	Exploratory (Semi-structured interview)
<b>How to change a position within the GVC by moving further?</b>	Lessons learned within Coffee GVC	Setting up a local roaster is the most efficient way for a coffee beans producer	3	Exploratory (Semi-structured interview)
<b>What is the most tax-beneficial way to transport coffee product to Europe? What is the taxation policy of coffee beans?</b>	Taxation policy when exporting beans from Brazil and importing in Europe	The most cost-saving way is to export green beans from Brazil since importing green beans only does not go with any taxes.	4	Descriptive (Secondary Data)
<b>How is the Brazilian coffee product perceived in EU coffee community?</b>	Country of origin influence	The Brazilian coffee product is perceived as a high quality coffee.	5	Exploratory (Semi-structured interview)
<b>What is the appropriate strategy for entering the foreign market?</b>	Pros and cons of certain strategy	Setting up a local subsidiary	6	Descriptive and Exploratory
<b>What is the appropriate product type for entering the foreign market</b>	Pros and cons of certain product type	Coffee beans	7	Descriptive and Exploratory

Figure 6 Theses and research method (Source: own creation)

## Research Design

As soon as the research question as well as objectives has been formulated, research design development takes place. A research design is a plan of the entire research process specifying methods and processes of data collection and data analysis. Study objectives need to be always highlighted to ensure that the appropriate information will be collected (Zikmund, Babin, & Carr, 2009). Based on the availability of the data, researcher must decide what will be the most efficient way of collecting that information.

As highlighted in the Figure 5, two different sources were used to find a solution for research objectives of this study identified above. When choosing a basic research method, or in other words a method to collect the necessary data, one exploratory and one descriptive method was chosen, more specifically secondary data and qualitative research (semi-structured interviews).

### *Qualitative research*

Descriptive method of data collection is usually a way to describe characteristics of certain objects, people, groups, organizations and environments (Zikmund, Babin, & Carr, 2009). Under the umbrella of descriptive research methods stands also qualitative research that was used as the main type of the data collection method for this study. It is important to mention that qualitative research may be considered as the descriptive technique but also as the exploratory technique, depending on the type of data being collected.

This type of the research uses techniques to elaborate understanding of market phenomena with no use of numerical measures. The main emphasis is focused on investigating realistic inner meanings and new inputs. The structure of this research is not as fixed as in the quantitative research. It is a researcher-dependent process in which unstructured responses, gained for instance via recording an interview, have to be analyzed in the objective manner. The interpretation of the meaning is extracted and converted to information (Zikmund, Babin, & Carr, 2009).

There have been written many books including theories regarding the definition of qualitative research. The epistemological explanation states that the goal of this type of research is a narration or description of a setting or practice via performing an observation or case studies (Parkinson & Drislane, 2011). It locates the researcher in the world that consists of many interpreted, material actions, which later turn the environment into several representations throughout notes, interviews, dialogues, photos as well as recordings (Denzin & Lincoln, 2005). The simplest and the most useful definition by Nkwi, Nyamango and Ryan (2001) states: „Qualitative research involves any research that uses data that do not indicate ordinal values.“

Based on Zikmund (2009), qualitative research comes in several shapes such as focus groups, in-depth interviews, semi-structured interviews, observations, conversations and so on. The most frequently used are the first three of them.

*Focus group* data collection method is broadly used in the field of advertising and customer preferences. It is an interview without solid and fixed structure, spontaneous and flowing conversation with a group of approximately eight individuals.

*Depth interview* is a one-on-one dialogue between a researcher and a respondent. The researcher comes with questioning a respondent, moreover with follow up questions. One important advantage to mention is that respondents are ready to share sensitive information since the environment is strongly private. On the other hand, a significant disadvantage is the fact that this research is time consuming when it comes to analysis of the recorded data collection.

*Semi Structured interview* deserves a special treatment within this paragraph since this type of data collection was used as the primary technique. This form of the data collection method comes in written or face-to-face form. Questions are pre-formulated and flexible parts of the interview are the follow up questions. It allows researcher to target a specific question and responses are easy to be interpreted, since the scenario was already predicted. Semi-structured interviews are cost as well as time-effective, again due to the preparation ahead. This type of the data collection was chosen as the most appropriate way for collecting the desirable data during the coffee fair as well as when conducting interviews with local coffee business leaders. Researchers would not have a power and sources to collect

quantitative data, since there is a need of pretty high number of respondents; therefore they rather conducted face-to-face interviews with certain companies operating within the coffee business.

Collected data were used to answer the second part of research objectives, which are cases where the most actual data are needed in order to take an efficient business decision from the side of a company, a decision-maker. To identify the trends of coffee products in the potential market, the qualitative data collection was used when interviewing local roasters (Thesis #2). Following objective whose goal is to propose the efficient way how to move further within the coffee GVC and gain the higher share of margins, descriptive method of data collection was used during researchers' attendance at coffee fair in London (Thesis #3). The identical procedure in regards with the identical location for data collection was used to figure out how is the Brazilian coffee product perceived in Europe (Thesis #5).

Obviously, when applying one type of research method for a particular research objective, in case of acquiring relevant data from both types of data collection both data have to be presented and discussed.

### *Secondary data*

Secondary data is a type of data that is usually gathered in the near or far past. If the data are available, they are collectable immediately and less expensive as primary data. On the other hand, this type of data cannot be redesigned and researcher must always consider the reliability of the source. Zikmund (2009) defines three main objectives when using secondary research designs in the business environment:

- Fact-finding (identifying trends in consumption) - researchers operating within business environment face challenges with constantly changing customer demand and behavior. This technique is useful when scanning a market in order to define most popular product, strongest brand as well as actual trends in consumption patterns.
- Model building (sales forecast, prediction of market potential) compared to the previous technique, this involves taking into consideration two or more variables, more specifically specify the impacts between those variables.

Researchers generally estimate companies' business potential via this technique. Trade associations or consulting groups publish data that are later accessed with business researchers. In case of this study *International Coffee Organization*, Consulting group *Nielsen and Euromonitor International* have been used as the data source for estimation consumption per capita which later helps to the market selection. Forecast selling is standing on the basis of this technique as well especially when it comes to mature and stable markets.

- Database marketing (customer databases) – it is a way of using customer relationship management databases to develop relationships with the specific customer segments or to achieve a precise targeting strategy. Especially, using past-purchase history, customer preferences are defined. Due to those facts, a business will not offer a tasty stake to vegetarians.

In case of this research, by using secondary data, the most relevant European Market or European country will be selected through market selection method (Thesis #1). Secondly, via the same data collection method the objective that takes into account considerations regarding the taxation when transporting and exporting coffee beans, will be discussed solved and calculated based on secondary data (Thesis #3).

### **Data Analysis**

The following steps after choosing the appropriate research methodology and data collection methods several interviews were conducted. Afterwards, those information have to be analyzed At the beginning of all personal interviews conducted during the study trip, the interviewers asked for the permission to record the conversation in order to be able afterwards to analyze the data in the most appropriate way. All the participants in the study allowed the researchers to record the interview, but at some of the interviews conducted at the London Coffee Festival it was very hard to record it, due to the fact that many events took place in the

exhibition hall and the noise did not allow having a proper recording. In this case, the notes collected during the discussion were used in the analysis.

The interviews were conducted in both English and German, depending on the preferences of the respondents. Afterwards, all the interviews were listened again, translated (the interviews conducted in German) and the transcripts of the interviews have been written. The interviews conducted in German were translated using the own knowledge of the researchers, as well as using recommendations from native German speakers. After gathering all the collected information together, the authors divided some of the results in themes in order to analyze the primary data. This method is known in the research methodology as phenomenology. Phenomenology is an approach of qualitative studies defined as an *“approach to studying human experiences based on the idea that human experience itself and it is inherently subjective and determined by the context in which people live”* (Zikmund, Babin, & Carr, 2009). The researcher conducting a phenomenological study focuses on identifying how the behavior of the individual is influenced by the relationships with the other individuals, environment or the stations. In other words, a phenomenological approach aims to reflect, describe and interpret different experiences (Zikmund, Babin, & Carr, 2009). The literature specifies that a phenomenological orientation in the data collection implies having semi-structured interviews, similar to a conversation which is recorded and then interpreted by the researcher, as it is the case of the study in hand.

## Theory Chapter

This chapter is dedicated to provide reader with the knowledge needed for understanding the analytical part of this research. It is necessary to understand the theoretical perspective of as a matter of fact that then a researcher is using a process that is proven to be working with slight modification for his specific research. Firstly, the Global Value Chain Concept needs to be explained in order to get an understanding of how the multi-national or cross-boarder businesses operate, if every company (actor) within the GVC is responsible for a certain value adding process within the entire production of a product. As a matter of fact this research's focus is coffee production, particularly coffee global value chain will be explained in details as the following paragraph. The aim of this project is to advice an appropriate market entry strategy for the Brazilian coffee producer; so foreign entry strategy and internationalization strategies are presented next. When one understand how to enter a new market, it is needed to decide which of possible markets to enter and therefore market selection theory is added as the last part of the theoretical chapter within this paper. Afterwards, reader should acquire solid insights within this field to understand upcoming analytical chapter.

### Global Value Chain Concept

It is a process of disaggregated activities performed by various actors (primary producers, processors, traders, service providers) in order to produce a desired output. Generally speaking, Global Value Chain (GVC) separates included actors in several key strategic activities in order to investigate the development of costs and current or potential sources (Porter, 1985). Nevertheless, the real life GVC seem to show a higher level of complexity, involving several actors of a certain category, therefore one GVC may compose of couple of smaller value chains (Perez, Perez, Huong, & Tien, 2009).

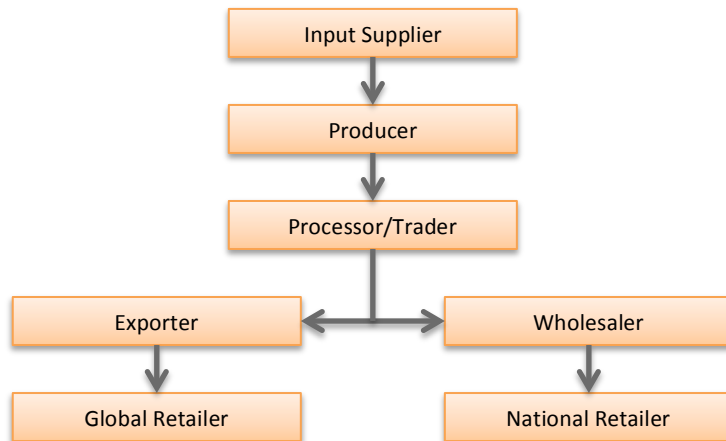


Figure 7 Global Value Chain Overview (Source: own creation based on Perez, 2009)

Current international trade sector is defined as an exchange of parts and intermediary products, rather than exchange of final consumer products. Increasing production or transformation process, also called global value chains and production networks, involves players operating in number of different localities. Secondly, the increase in exports of developing countries has been supported by price falls in labor-intensive producers (Daviron & Stefano, 2005).

All of the margins brought by actions along the whole supply chain of a certain product, from the initial step of production until the final consumption, relates to the concept of Global Value Chain (International Coffee Organization, 2014). Simply, the GVC concept defines input and output relationships as well as profiles of major actors, which impact significantly the coordination of production in the system. Even though the entire chain includes a number of intermediaries, only one or more actors, called also “chain governors”, influence the GVC (Slob, 2006).

Actual trend leads to producers’ doubt, how to stabilize their position when producing only primary commodity, if the competition pulls the prices and wages down. Producers also face the question of improving the production process as well as how to improve the final product. The main goal is to define which shape of value chain will deliver better returns as well as which intermediaries and market would be the most beneficial (Daviron & Stefano, 2005). Participation in value chain is in the most of the cases a beneficial step for developing countries, usually producers, as a matter of fact that it brings benefits in regards with organizational and technological improvement, technology transfer as well as the positive backward relations with the local supply.

The GVC concept is introduced due to the purpose of analyzing the potential Global Value Chain of the Brazilian coffee producer. Therefore, in the next paragraph, GVC analysis as well as its steps will be explained.

### **Global Value Chain Analysis**

Global Value Chain Analysis takes into account a separation of a global structure of production, trade as well as consumption of the core product in order to bring a characteristic identification of actors and geographical spots (Daviron & Stefano, 2005). GVC Analysis addresses all of the questions, mentioned in the previous paragraph, that producers face. In simple words, it considers the several combination of inserting emerging countries in the international trade and analyzes the opportunities offered by these parts of globe. By performing the GVC analysis, the point of adding a specific attribute to the product is identified as well as how the value is divided between actors within the chain. In other words, researchers (any individual performing the GVC analysis) try to define which actor is standing behind certain roles, who impacts the distribution of margins among several actors and what standards need to be fulfilled in order to take a part in GVC (Slob, 2006). The possibilities to “level-up” within GVC (technology, value added, operational scale) in multidimensional market, involving following particular terms, rules and standards set by key agents or institutions are to be found out within the GVC analysis as well.

### **Global Value Chain Analysis Process**

The initial step of GVC analysis continuously maps the actors standing behind the production followed by distribution, marketing, sales and services of the produced unit. It also identifies the description of actors, profits and cost structures as well as the distribution of wares throughout the GVC. At the end of this step the character of employment system as well as the volume of sales are identified. Source of required information or data for the first step of GVC are surveys, focus groups, informal interviews as well as secondary data (Perez, Perez, Huong, & Tien, 2009). As described within the Methodology Chapter those instruments were used in this research as well in order to perform an appropriate analysis.

Second step of GVC analysis is dedicated to an investigation of benefits' distribution among actors in the system. Simply, analyses margins and profits within the chain that are gained via productive participation in chain. It also identifies actors that would benefit the most from increase in support or organization. This step focuses on the development of margin in order to track "margin-rich" activities (Perez, Perez, Huong, & Tien, 2009).

After the investigation of actors and their profits within the chain, the next step is dedicated to the improvement or as found in the literature "upgrade" (Humphrey & Schmitz, 2002). This process of upgrading may involve upgrade in quality and design of the outcome in order to achieve higher margin, adjustment of a product in order to change its position or achieve a uniqueness, investigation of actors' profits and expanding the actual information. Governance, entry barriers, trade limits and rules also impact the possibilities of upgrading GVCs (Perez, Perez, Huong, & Tien, 2009).

So called "upgrading" within GVC is nowadays a topic of a high importance, due to those beneficial reasons. Looking at the GVC from the general perspective, the process of upgrade is identified as knowledge and information transfer within the chain parts from leading actors towards suppliers or buyers (Daviron & Stefano, 2005). In other words, it is the way of entering new market segments and acquiring the capabilities via taking a part in a certain chain (Gereffi, Stark, & Psilos). There are several differentiations of upgrading goals of within GVC found in the literature. The categories defined by Humphrey and Schmitz (2002):

- Process upgrade- it is a process of reorganization the production system by implementation of innovative technology
- Product upgrade- it is a process of a value increase by transferring into more complicated product lines
- Functional upgrade- the process of acquiring innovative function (or stopping actual functions) in order to increase the skill content of actual activities
- Intersectoral upgrade- application of actual competences and moving with them into new sector

The research in hand focuses mainly on the second category, the product upgrade, where the value is created by producer's repositioning in the processing steps within the GVC in order to bring up a product that is located closer to the final consumer product with increased margin.

The general final step of GVC analysis focuses on the previously mentioned impact of governance on the chain. Governance accounts for the structure of existing relationships and coordination systems that exist between actors. Agreements found within the chain will be identified, since they may help to upgrade capabilities in chain as well as for identification of profit distribution. Literature identifies three main types of governance structure in GVC, producer-driven, buyer driven and Internet orientated (Slob, 2006). Governance structure also identifies the entry barriers and coordination of chain.

- Producer-driven government structure

The first type, producer-driven structure, is usually represented by sectors requiring high technology and level of capital, with capital and respective know-how creates the main entry barriers. In such a system, producers outsource labor-intensive activities, also known as vertically integrated networks and focus on capital-intensive operations (Daviron & Stefano, 2005). In such a case, multinationals or large corporately integrated units control the production from their administrative headquarters (Perez, Perez, Huong, & Tien, 2009).

- Buyer-driven government structure

Buyer-driven chains are to be found in more decentralized systems than producer-driven chain and are results of global integration of distribution, expansion, marketing and consumption trends. In those industries brand significantly support the sale and traders as well as retailers play the key role in decentralized production process. Therefore, the value of brand as well as brand's consolidation process in the market plays the key role (Perez, Perez, Huong, & Tien, 2009). Obviously, the entry barriers here are market information, product design and communication strategy (Daviron & Stefano,

2005). Usually, developing countries selling into global markets, in case of this research coffee producing countries, belong to this category (Slob, 2006). Key players focus on branding, design as well as marketing activities (Daviron & Stefano, 2005).

Basically, the GVC analysis focuses on the three key fields. Starting with entry barriers and margins followed by governance and ended with systemic efficiency (integrate all of the actors to create one flow) (Perez, Perez, Huong, & Tien, 2009).

### Global Value Chain of Coffee

As in the place of variety of other agricultural products, value-adding actions within the coffee production chain are split between producing lands and consuming lands. Producing country generally exports green beans, which are later transformed into the final consumption product in consuming countries (International Coffee Organization, 2014). Figure 8 was created in order to show readers every step of the global value chain of coffee products and it is based on several sources including Daviron & Stefano (2005), Slob (2006) and (African Center for Economic Transformation, 2009). Every source offered in general the same information but they slightly differed. For instance Slob (2006) provides us with the differentiation of actions based on where they are performed, either in producing or consuming country, but does not go deep into steps within the coffee production, which was supported with (African Center for Economic Transformation, 2009) Report. In order to cover all of the important steps of the coffee processing part of the GVC, the explanation found in the book from authors Daviron & Stefano (2005), the grading system of coffee beans has been added. Merging all of those information has allowed researchers to come up with the coffee GVC framework found in the Figure 8.

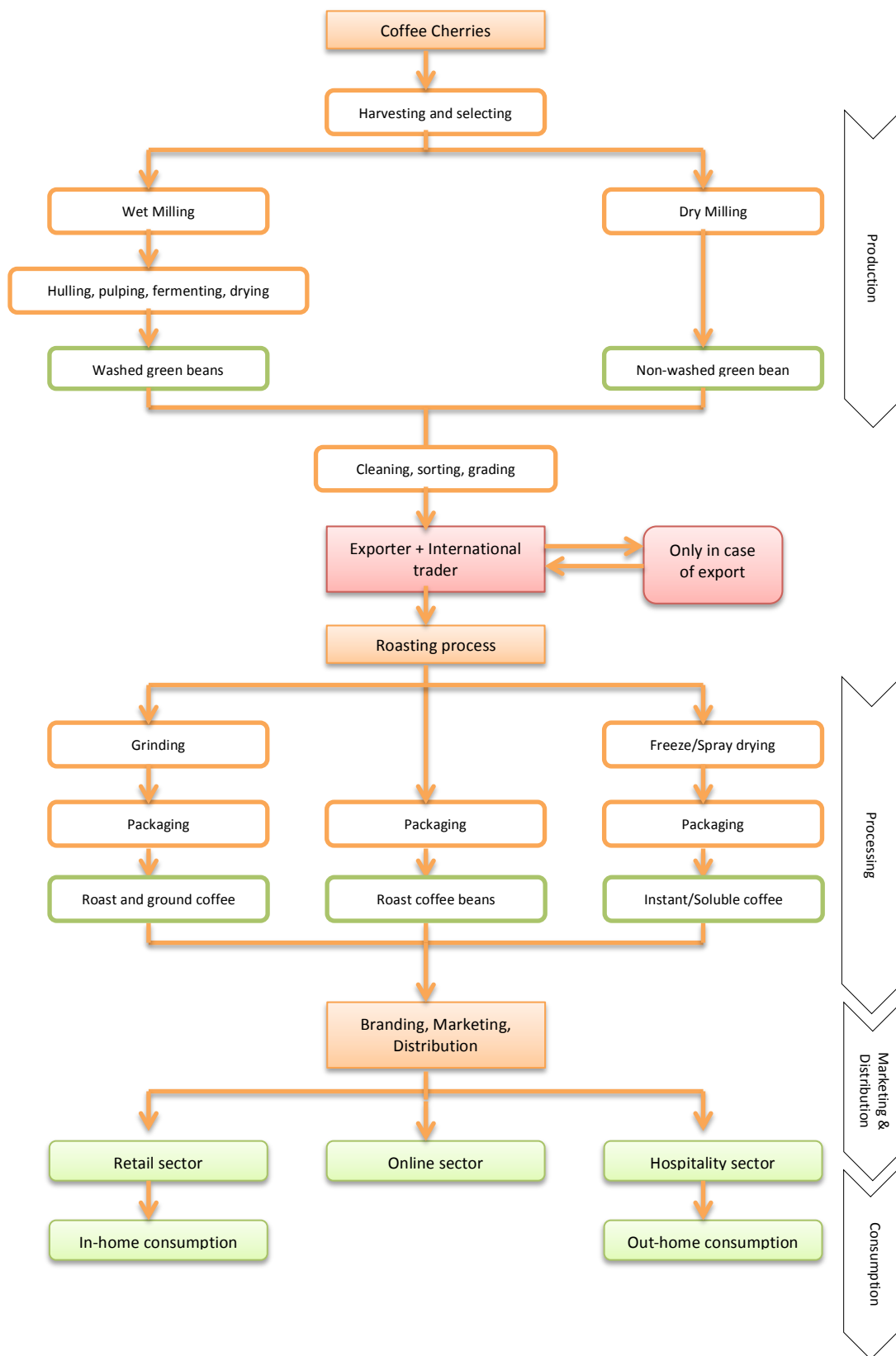


Figure 8 Coffee Global Value Chain (Source: based on several sources)

## **Production**

As seen in the Figure 8 the first section of the Coffee Global Value Chain (CGVC) is “Production”. It consists of several steps with the main goal to separate two parts of the coffee cherry, which are pulp and skin with the desired state of a clean green bean. This method could be described on few pages, but since the purpose of this project is related to the business side of the coffee market, the explanation will be simplified. The entire process starts with a **coffee tree**, which is a fruit tree. It produces coffee fruit, also called **coffee cherry**. The following step, harvesting, has to be performed at the stage of maturity, whole red cherry. Afterwards, a process called **depulping**, is performed in order to remove the skin and pulp from the coffee cherry and separate the bean from other layouts. Nowadays, there are special machines for performing this step and guarantee better results compared to previous processes, leaving beans to dry outside. There are certain temperatures and humidity levels, which need to be managed, and this is why machines perform it on a more precise manner (Thurston, Morris, & Steiman, 2013). Looking at the Figure 8, it is seen that there are two methods of upcoming step, “wet” milling and “dry” milling.

**Wet milling** is mostly performed in case of Arabica coffee and processed Arabica is known as Mild Arabica. It is not a common process in region with frequent rains. Firstly, the matured cherries are harvested, followed by pulping, in other words extracting the seed from the fruit. Fermenting by pressing, simply eliminating other layers such as mucilage and parchment, is the next step. Elimination of mucilage is performed either with a machine or by use of microorganisms eating the undesired layers (Thurston, Morris, & Steiman, 2013). Final part is washing and drying either on the sun or by use of a machine (Slob, 2006). The output of those processes is the parchment coffee. Later in the curing plant, the parchment is removed and the coffee bean is cleaned and polished (Figure 8).

**Dry milling** is the process performed in the production of almost all Robusta coffee. When this process is done in case of Arabica coffee, the output is called Hard Arabica or Natural Arabica (Daviron & Stefano, 2005). As in the previous method, firstly the coffee beans are harvested and stored for month or two months to change the taste towards matured perfect cup. Later, short time before transportation, it is

needed to dry them until they separate from outside layers (Thurston, Morris, & Steiman, 2013) The dried cherries are delivered to huller in order to get rid of outside layers, more specifically silver-skin, a transparent layer covering the green bean **bean** Figure 9.

No matter which of those methods is performed, the end result is always a green coffee bean, which is a qualified product for export. The last step in the production process is the point, where green beans are cleaned, separated and graded into several groups, showing the different quality levels. The grading system is not the same for Arabica and Robusta beans. Grading system depends on shapes, colors, sizes, tastes, picking or processing types, densities and intensity of defects. Robusta is graded simpler compared to Arabica. Robusta is graded by size and number of defects, whereas in case of Arabica, other mentioned categories are taken into account. Afterwards, coffee beans are usually transported in 60-kilogram bags in containers (Robusta beans sometimes transported without bags) to the harbors with a huge storage near the consuming countries, located for instance in Amsterdam, Hamburg on Antwerp for the European market (Daviron & Stefano, 2005).

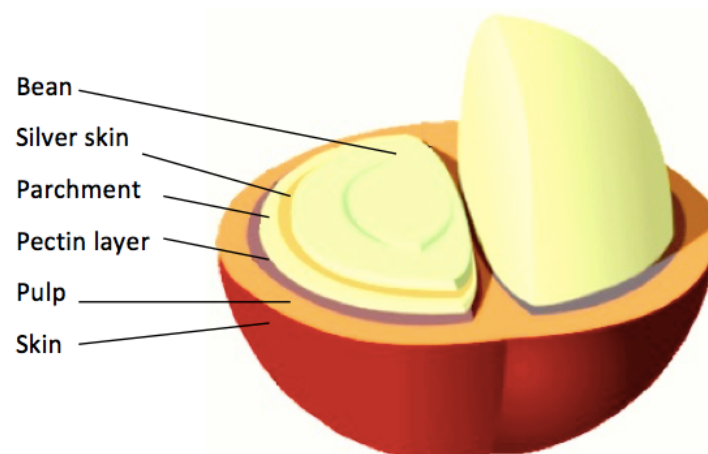


Figure 9 Own creation based on Thurston, 2013 and Wikipedia)

### *Processing*

The following step, processing, starts with taking green beans out of storage. This step is usually performed in the roasting factory, close to the final consumer. Green beans can be safely stored in cool, dry and clean place for about one year (Slob, 2006). Some GVCs include also steam-cleaning before blending in order to remove defects of dry-milled coffee beans. Blending, or in other words building a combination of different coffee origins, takes place to keep the specific know-how, reduce the costs by combining cheap with expensive origins, create a unique taste, or to stabilize the attribute of a product (Daviron & Stefano, 2005).

As seen in the Figure 8, the next performed step is “roasting”. Roasting process takes place mainly to release flavors or aromas of coffee. It is a sophisticated process requiring high level of roasting skills. The main focus of the entire process is roasting time, heating and cooling. Obviously, the length of the process impacts color and taste of the product. As seen in the framework above, roasted coffee is either grounded, directly packed or the process follows until Instant/Soluble coffee is prepared (Slob, 2006). Soluble coffee requires two additional steps, the liquid preparation as well as dehydration, done with either very high temperature (heating) or low temperature (freezing) (Daviron & Stefano, 2005). In the step of liquid preparation, the roasted beans are dissolved in order to create a liquid. The liquid is then dried by spraying (powder) or by freezing (granules). The consumption of the instant coffee is actually decreasing. In all of the cases the roasting process is based on consumer preferences in the target market (Slob, 2006).

### *Marketing & Distribution*

The trade of roasted coffee, which accounts under the section “Marketing & Distribution”, happens almost always within or between consuming countries, as a matter of fact that green and instant coffee can be stored for a long period while the processed coffee loses its quality faster. Roasted coffee is a sensible product and it usually takes only one week on the air until being stale. However, nowadays-sophisticated packaging has been introduced prolonging the shelf life up to 1 year (Slob, 2006).

Grounded and roasted coffee market is significantly larger compared to soluble/instant coffee. Previous research shows the value of the first being \$26bn compared to the value of the latter one with \$4bn (Slob, 2006). Around 25 million of producers are operating in more than 60 countries, supplying thousands of roasters. The product then comes to retailers in order to reach the final consumer.

Low level of consumption growth leads roasting and retailing businesses to innovation and segmentation to add the value to the product and enter the markets. Potential markets of consumption rise such as Eastern European countries and some countries of Asia. Majority of coffee to be consumed at home is sold via supermarket chains. Strong multinationals with tremendous advertising have managed to control the coffee GVCs, despite supermarkets developing their own private labels. Companies as Nestlé or Kraft are one of the entry barriers for the new players. Supermarkets keep the margins low, in some cases even in loss, to keep the fluctuation of customers.

Recently, the fragmentation of the coffee market is showing a potential of emergence of new consumption types, especially the need for sustainable coffees, single origins, exclusive shops and out-of-home coffee services. All of those brings challenges to traditional companies and brings opportunities to new roasters. What gives a disadvantage to the traditional roasters is a homogenization and mass marketing, bringing the quality down. Therefore, specialty coffee companies can gain a success via couple of paths such as higher quality of coffee, limited availability of the product, unique flavoring, packaging as well as ambience of consumption (Daviron & Stefano, 2005).

### **Consumption**

Developed countries in the northern hemisphere are definitely the main consumers of coffee worldwide. The only producing countries with high level of consumption are Brazil and Ethiopia (Daviron & Stefano, 2005). Nowadays, the coffee consumption is mainly concentrated in Europe, North America, Asia, Japan and Korea. Within European market, Scandinavian countries show the highest consumption level per capita. Nordics together with Germany pick Mild Arabica as

the most favorite one. Robusta as well as Hard Arabica are found in the blends of South European countries, in espresso blends. Americans and Brits go for lighter roasts, requiring a wide variety.

### *Coffee certifications*

Certification is a very controversial theme in the coffee industry. Generally speaking, certifications are strongly concerned about sustainability of the coffee production. Sustainable certified coffee was firstly introduced in Europe as a fair trade movement (Daviron & Stefano, 2005). One find them useful, helpful and necessary in order to keep or improve the quality of coffee, while other side says that it is only a money machine for couple of individuals and the premium paid is not necessarily transferred to the producers. Nevertheless, this topic was discussed broadly during the data collection actions and therefore an introduction of the most common certifications (Rainforest Alliance, UTZ Kapeh, Fair Trade, Shade-grown) is of a necessity.

#### Rainforest Alliance

It is run by a NGO ensuring sustainability standards. This certification has been also obtained by the company Grupo CMEW, that lies in the background if this research. It takes into consideration several ecological factors and also community relationships and fair treatment of workers. The company is certified based on the score coming from meeting a number of criteria (Coffeehabitat, 2015).



#### Organic

The coffee's production goes in line with methods that support a violable and sustainable ecosystem. Government authorities, international organizations or International Federation of Organic Agriculture make verification. There is a must of meeting certain standards and procedures in order to obtain the certification: 1.coffee is produced has not been produced with the use of synthetic agro-chemicals for at least three years



before the certification. 2. There is a deep record of procedures and materials used in coffee production and management plans 3. Certified agencies observe all procedures and materials on the regular basis (Daviron & Stefano, 2005).

### Fair Trade

It aims to increase the life quality of small producers by helping them to access the market, supporting their organizations, assuring a fair price with a fixed minimum and providing them with consistency in trading. These products



must take into considerations the exchange relation between both sides that focuses on both market and ethical factors with the desire of long-term business relationship (Daviron & Stefano, 2005). Fair Trade cooperatives receive minimum of \$1.31 per pound and \$1.51 per pound if they are also organic. The distribution of this price is on the shoulders of the cooperatives (Coffeehabitat, 2015).

### Shade-grown

This is a very recent sustainable certification as well as very specific one, promising that coffee was grown under the forest umbrella, assuring the biodiversity and providing birds with a solid habitat. These procedures assure the long-term sustainability of the coffee productions, maintain water, soil and



biodiversity (Daviron & Stefano, 2005). The ecologist at the Smithsonian Migratory Bird Center developed well-known shade-grown certificate "Bird-Friendly" that takes into account following criteria: 1. Canopy with the high of at least 12 meters. 2. 40% or more shade cover. 3. Eleven species of trees making shade. Also the production must be already certified as organic (Coffeehabitat, 2015).

## Utz Kapeh

The name comes from the Mayan language and means “a good cup of coffee” (Daviron & Stefano, 2005). Utz certification certifies several agricultural products with no exception for coffee. The focus is put on transparency as well as traceability of the product in its Global Value Chain. It also inspects solid agricultural practices such as erosion prevention, lowering the use of water, level of pollution, use of chemicals and habitat protection (Coffeehabit, 2015).



The Coffee Global Value Chain has been one of the most crucial battlefields for the certifications addressing environmental and socio-economic issues. Coffee is the leading product for fair trade associations as well as for environmental organizations. Couple of certificates have been established such as those mentioned above. Some recent initiatives have been recently surfacing and they adopt weaker inspecting procedures to confirm product’s sustainability. The danger is coming through the fact that customers may adopt those not solid enough certifications as a benchmark, which can at the end bring chaotic and confusing decision-making processes. On the other hand, more organizations surface, more problems will be delivered to the farmers, since they can end up with inspections on daily basis by people with clipboards from variety of organizations (Daviron & Stefano, 2005).

Therefore, it is needed to define the importance of certifications at the European market and how are the certifications perceived. During the data collection this was deeply discussed at the every interview that was made by authors of this paper.

After introducing the Global Value Chain as well as the particular Coffee Global Value Chain, one can understand how this production chain work and what kind of value, every particular actor adds. The following paragraphs will introduce how does the firm change its position within this GVC by entering new markets located across the borders of the producing country.

## Foreign market entry modes

In the current chapter the modes used by companies to expand the operations beyond the borders of the domestic country take place. The authors decided to analyze the entry modes in order to find the proper approach for the Brazilian coffee producer, which is the subject of the study, to enter the Western European market. Three different types of foreign market entry modes, each with its specific characteristics, are mentioned in the specialty literature. The three types are the following:

### Export modes

Export mode is the most common mode for companies entering a foreign market. The export mode means that a company manufactures the products in the domestic country or a different country and afterwards the products are delivered to the host country.

### Intermediate entry modes

The intermediate entry modes are based on the idea of transferring knowledge, capabilities and assets between partners. The ownership of the organization is shared between the companies involved in the partnership, as well as the control in the organization (Hollensen, Global Marketing, 2011).

### Wholly owned modes

There are two types of wholly owned foreign market entry modes: acquisitions and Greenfield investment. An acquisition is when a company decides to expand the operations abroad via investing in a purchase of already established company in the foreign market; On the other hand, a Greenfield investment is when a company builds the operation facility in the host country from the base (Hollensen, Global Marketing, 2011).

Above were presented the types of foreign market entry modes. Following, each of these entry modes will be discussed into detail.

- Exporting
- Licensing
- Franchising
- Joint venture/strategic alliance
- Wholly owned modes

## Exporting

Exporting is the most common entry mode for the first stage of the internationalization process of companies. In many cases, companies started to export their goods when unexpected requests were received from foreign companies, or the clients from the domestic market expanded the operations in other markets, requesting goods for their foreign operations.

Exporting is an entry mode often used by companies to test the potential of different foreign markets without a capital investment and with limited risks, aspects having a decisive role in influencing the decision of the managers to begin the internationalization process in this way. The exporting activity can be organized in several ways, and usually the exporting activity progressively changes into an operational department of company in the foreign market. (Hollensen, Global Marketing, 2011).

Among the advantages of using exporting as a method to enter a new market, the most important are the following: companies have the possibility to sell the products on markets at long physical distances and experience different economies, the trade barriers in some regions were removed (for instance where economic unions were established between countries).

On the other hand, export has also disadvantages that may influence the flow of the business activity in the foreign country. Firstly, delivering the good from the production facility in the home country to the foreign market usually involve high transportation costs. These high costs for the transportation may have a decisive impact on the product price, reducing its competitiveness on the foreign market. Secondly, problems with the parties involved in the transactions may appear, such as

agents and also in some countries the trade barriers can raise problems for the exporter (Schultz & Speiser, 2003).

## Licensing

The licensing entry mode represents a partnership between two companies, called licensor and licensee. The licensor is the company that decides to internationalize, allowing another company, the licensee, to use their trademarks, patents, design, copyrights, formulas and inventions. This kind of partnership is usually for a determined period of time, which can be extended if both parts agree to continue the collaboration. In order to benefit of all the knowledge and capabilities of the licensor mentioned above, the licensee has to pay a fee if the foreign company decides to be a part of the agreement (Schultz & Speiser, 2003). When entering a foreign market using the licensing mode, the company avoids the costs and the risk of entering it, as well setting up an investment for a production or logistic facility in the host country. Therefore, companies that do not possess enough capital to internationalize could use this entry mode using an entry mode that requires more involvement (Hollensen, Global Marketing, 2011).

The licensing entry mode has several advantages. These advantages are facilitating the entrance on the country of interest for the companies, which decided to internationalize using this market entry strategy. As it was mentioned before one important advantage of this mode is that the company deciding to internationalize does not have to invest a large amount of capital and the licensor can also benefit from the existing network and distribution channels of the licensee in the host country. In this way another important advantage of this entry mode is that all the regulations and entry barriers of the host country, which usually make it hard for a foreign company to enter into a foreign market, could be avoided through licensing (Hollensen, Global Marketing, 2011).

On the other hand, this type of agreement narrows the control of the licensor on the production, marketing, the quality of the product and the strategy that the licensee use in order to sell the product, which represents a strong disadvantage. On the top of this, the licensor has no control over the activity of the licensee. This can

lead in the future to a direct competition between the former partners (Hollensen, Global Marketing, 2011).

### Franchising

According to Hollensen the franchise concept started in the United States, where at the end of the eighties about one third of the retail sales were driven by franchises. On the other hand, during the same period of time in Europe, the retail sales driven by franchises were at the level of only eleven percentages (Hollensen, Global Marketing, 2011).

Franchising is an entry mode quite similar to the licensing mode but in this case the company who is selling the right to use the brand and knowledge has more control and the partnerships are usually established for long periods of time (Schultz & Speiser, 2003).

The franchising entry mode involves a partnership between two companies. The partnership when a company decides to internationalize is developed between two parties. One of the parties is the franchiser, the company providing knowledge, trademarks, designs, patents geographic exclusivity, copyright and other capabilities. The other party is represented by the franchisee, which is the company who benefits of the above mentioned properties of a company in the country where the franchiser decides to operate.

The franchisee has to pay for using the elements provided by the franchiser a royalty fee. This royalty fee is usually represented by a part of the revenues made by the franchisee within a year.

### Joint ventures/strategic alliance

The joint venture represents a partnership between two companies, but opposite to licensing. When using this entry mode, the foreign company has partial control over the operations in the host country. The companies have to decide whether to split the control in equal or non-equal parts. Usually, when the control is not divided equally, the host company takes more control over the activity. (Schultz & Speiser, 2003).

An advantage of the joint venture as an entry mode is that both companies gain something from the other company. The home company put financial investments, technology or products, while the host company gives its skills and knowledge to the international company. The both partners also share risks and costs. One important disadvantage of this joint venture mode is the necessity of more control over the technological, financial and managerial resources. Possible is also a conflict between managers because of cultural differences. At some point the importance of the venture may be different for the partners (Hollensen, Global Marketing, 2011).

### Wholly owned modes

Wholly owned subsidiary is an entry mode when the firm owns hundred percent controls over the company. There are two major ways to establish foreign wholly owned subsidiaries: Acquisition and Greenfield investment. Greenfield investment is when the firm will enter the new market by establishing a completely new operation and legal entity. The acquisition way is to gain another company in the foreign country and in this way to expose its products on the market (Hollensen, Global Marketing, 2011).

The biggest advantage in this entry mode is that firm can protect its ownership advantages from competitors, for example, technology, knowledge and quality. It can control all the operations in the company. As every mode wholly owned mode has its disadvantages too. Firstly, it costs firm a lot of finances to create it. Secondly, it is very risky, so the firm should be sure that it has explored the market very good and they know the uncertainty level of the market (Schultz & Speiser, 2003).

### Internationalization

During the last decades, more and more companies decided to extend the operations beyond the borders of their domestic market. This is a consequence of the globalization of business that allows companies to develop partnerships not only with domestic companies along the value chain but also with foreign organizations.

The internationalization term is mainly used in the literature to explain the movement of the operations of companies or organizations outside the borders of the domestic market, as it was defined by Turnbull and Piercy, “the outward movement of a firm’s operations” (Morgan & Katsikeas, 1997) . The increasing importance of the internationalization topic during the last decades implied authors to research deeper into the subject and therefore found in the international marketing literature many other explanations of the concept. For instance, the authors Welch and Luostarinen say that the internationalization is “the process of increasing involvement in international operations” (Welch & Luostarinen, 1993). Moreover, the definition provided by authors Calof and Beamish (1995) gives a better understanding of the phenomena stating that internationalization is “the process of adapting firms operations (strategy, structure, resources) to the international environments”. (Calof & Beamish, 1995)

In other words the internationalization phenomena can be explained as how a company will approach the “direct contact” with the foreign market where they want to expand the operations. The success in the foreign country is partially driven by the performance in the home country, especially in the international trade.

### Internationalization Motives

Basically, the reason why companies decide to internationalize is their willingness to increase the revenues. However, only one reason is not enough in many business situations and therefore, when companies decide to expand the business operations across the border, there are different factors contributing in making this decision.

The author Svend Hollensen (Hollensen, 2011) divides the internationalization motives in proactive motives and reactive motives. Proactive motives are explained as stimuli to adopt a change in the strategy, based on unique competences of the company as well as opportunities in the foreign market. On the other hand, the reactive motives are the stimuli coming from threats and pressures in the country where the company operates and the reaction of the company to change the activities over time.

Internationalization Motives	
<p style="text-align: center;"><b>Proactive Motives</b></p> <ul style="list-style-type: none"> <li>• Profit and growth goals</li> <li>• Managerial urge</li> <li>• Technology competence</li> <li>• Foreign market opportunities</li> <li>• Economies of scale</li> <li>• Tax benefits</li> </ul>	<p style="text-align: center;"><b>Reactive Motives</b></p> <ul style="list-style-type: none"> <li>• Competitive pressures</li> <li>• Saturated domestic market</li> <li>• Overproduction</li> <li>• Unsolicited foreign orders</li> <li>• Extend sales of seasonal products</li> <li>• Psychological distance</li> </ul>

Figure 10: Internationalization Motives (Source: own creation based on Hollensen, 2011)

As it can be seen in the above Figure 10, the proactive motives are mainly consisting of positive aspects of the company willing to internationalize, or opportunities identified in the country of interest. On the other hand, the reactive motives are the opposites of the proactive ones. The reactive stimuli are driven from negative aspects of the domestic market, such as high competition, low demand or saturated market.

### Internationalization Theories

The literature regarding the internationalization of companies developed over the years along with the changes in how the companies decide to approach the international markets. At the early stages of the internationalization literature, the phenomenon was explained based on the general marketing concepts and theories. Afterwards, the literature started to focus on the differences and the advantages or disadvantages of the foreign direct investment (FDI) and exporting. Nowadays, the main internationalization theory included in the literature is the network internationalization method because the international business environment tends to be more like a “web of relationships, rather than a classical market with many suppliers and customers” (Johanson & Vahlne, 2009). This is a method used by many multinational companies that expanded their global footprint with a fast pace over the last twenty years by establishing different partnerships with local companies in the countries where they established the business (Hollensen, 2011). There can be mentioned a few industries where the network approach is often used by companies

running the activity in the certain area: the car industry, retail industry or the fast food industry.

Given that, there are many theories in the literature explaining different ways to approach the internationalization, the authors of the current study decided to focus on the most relevant ones. The authors studied the theories leading to a proper approach to internationalization for the company that is the subject of the research, and decided to include in the current report the eclectic approach to internationalization and the network approach.

The decision is based on the vision of the Brazilian coffee producer, Grupo CMEW, towards internationalization and their capabilities. For instance, the researchers decided not to include the Stage Model of internationalization, also known as the Uppsala Model, because during the interview with the owner of Grupo CMEW, he mentioned that company would like to expand the operation on the European market (Appendix 9). The European market is physically at a long distance from the home country of the company, whereas, the Stage Model is based on a different concept. The concept funding the Stage Model process states that companies starting to internationalize, in the first stages, will expand the operations in countries located at a short physical distance and with similarities in culture. (Hollensen 2011). In the following part, the chosen internationalization theories will be described:

### *The Eclectic Approach*

The eclectic approach to internationalization that is also known as the OLI framework, abbreviation standing from ownership, location, and internationalization, was firstly introduced by the author John Dunning at a Nobel Symposium which took place in Stockholm in 1976 (Dunning, 2001). The author argues that a company is able to expend the activity in a successful manner abroad if the following 3 aspects are met:

1. Ownership advantages: It mainly consists of competitive advantages of an organization over a company of a different nationality in supplying clients from certain country or region. This advantage can derive from owning a

production facility, or from the capacity of the company to coordinate the assets beyond the borders and become competitive in other markets. In other words, the competitive advantage is a result of the income-generating assets and from the know-how of the employees (Dunning, 2001).

2. Locational advantages: the company should consider coordinating the assets with other factors from the foreign country, such as the labor, the raw materials needed, the costs of energy and transportation.
3. Internalization advantages: It refers to the ability of the company to keep the know-how and assets internally when internationalizing, in order to value them as high as possible. Selling these assets would not be that profitable compared with keeping them in-house. (Hollensen, 2011)

### *The Network Approach*

As it was briefly mentioned earlier in this chapter, the network approach to internationalization is one of the newest internationalization theories in the literature. The use of networks, when the management of companies decides to extend the operations outside the national boundaries, is one of the most common approaches in the last decades.

In a normal internationalization model, the companies running the activity on a specific market do not interact directly. On the other hand, in the network model, companies establish partnerships or different exchange agreements with foreign organizations, in order to facilitate to transfer of knowledge and assets between the actors. Moreover, some companies often use the network established in the domestic market as a bridge to other foreign markets. (Hollensen, 2011)

When companies establish a business network, the chance to improve and speed up the internationalization process is increased. The author Svend Hollensen states that many small and medium size companies from the high-tech industry tend to skip different steps and enter countries located at far physical distances using the network approach, given that they can establish an own subsidiary quickly. This represents one of the main advantages of this internationalization method. (Hollensen, 2011)

### *Internationalization of SME*

The importance of the small and medium sized enterprises in the economy is undeniable, both in high-industrialized countries and developing economies. The SME play an important role because they are a source of economic growth, providing a large number of employment opportunities and because of the influence in the dynamics of the market (Robu, 2013). According to the Organization for Economic Co-operation and Development (OECD), SME account for about 95% of the total companies worldwide, where about 60-70% of the total number of employed people is working (Organization for Economic Co-operation and development, 2006).

Along with the globalization phenomena and the changes in different regulations, the level of competition on the domestic market increased. There have been made changes in the trade legislation of different countries, and several economic unions or free trade agreements have been developed with main purpose to increase the efficiency of the economy for the members of the union as well as to develop closer political and cultural relationships. The consequence of these changes on the business environment is that international companies, either multinationals or SMEs, are gaining easier access to foreign markets, pushing in this way the local players to expand the operations outside the borders (Ghanatabadi, 2005).

The author Svend Hollensen also emphasize the importance of the SMEs in the world economy, as well as the importance of expanding the company's geographical footprint. The expansion of the activities in other countries increases the ability of companies to compete on the market, may lead to more profitable areas and increases the company contact with the new technology and product innovations. (Hollensen, 2011)

For SMEs, the biggest challenge when internationalizing is to develop a sustainable business, which can compete with the local players. Most of the times this has to be made using limited resources. Hollensen (2011) argues that the internationalization process represents a growth and development process which can take place at the level of one or more parts of the value chain. Many SME companies decide to start the internationalization with a low level of exposure, usually through networks and transaction with foreign partners and organizations. The companies are using in the first stages of the process both internal and external

links which are usually reflecting what at the strengths and the weak points of the organization.

Usually, the SMEs are using a combination of inward and outward value chain activities at the beginning of the internationalization process. In the following table are presented the value chain elements that companies may decide to internalize or externalize when expanding the operations.

	Inward Activities	Outward Activities
Research and Development	<ul style="list-style-type: none"> <li>◦ Contract-in R&amp;D</li> <li>◦ License-in technology from overseas subsidiary</li> </ul>	<ul style="list-style-type: none"> <li>◦ License-out technology to overseas company</li> <li>◦ Contract-out R&amp;D to overseas subsidiary</li> </ul>
Production	<ul style="list-style-type: none"> <li>◦ The technical service and the consultancy is made in the home country for the overseas customers</li> <li>◦ Contract-in manufacture for the overseas subsidiary</li> </ul>	<ul style="list-style-type: none"> <li>◦ Contract-out manufacture for the overseas subsidiary</li> <li>◦ The technical service and the consultancy is made overseas</li> <li>◦ Minority/Majority investment in overseas production</li> </ul>
Marketing and Distribution	<ul style="list-style-type: none"> <li>◦ Import from own overseas supplier</li> <li>◦ Import with distribution in the domestic market</li> <li>◦ The marketing service is made in the home country for the overseas customers</li> </ul>	<ul style="list-style-type: none"> <li>◦ Exporting through home country intermediary</li> <li>◦ Exporting through foreign based agent</li> <li>◦ Exporting through an overseas sales office</li> <li>◦ Exporting through home country intermediary</li> <li>◦ The marketing service is made overseas</li> </ul>

Figure 11 SMEs inward–outward cross-border business activities (Source: own creation based on Hollensen, 2011)

Once, the appropriate way of entering a foreign market has been understood it is necessary to make a decision which of the potential market or markets are to be entered and why. Therefore, the following chapter International Market Selection takes its role in order to bring the foundation for this decision.

## International Market Selection

It is essential for every company deciding to expand the operations towards the international markets to analyze which market is the most appropriate one, having

in mind different key aspects influencing the business on a positive or a negative way.

In the current part of the research, authors will identify the most appropriate market selection model for the current study. It is important to identify a proper method to analyze the international markets in order to provide the company, which is the main subject of the study, with useful information regarding the markets where the company should show good performance.

Author Bradley Frank, cited by Kuada (2008), identifies two different approaches to international market selection. The first approach described is the “opportunistic identification” of the international markets. It is called in this way because, according to the author, the identification of a certain market comes with a combination of unexpected external stimuli. More specifically, these stimuli represent unexpected orders coming from a foreign company, or finding potential business opportunities during a non-business related visit in a certain foreign market or opportunities occurred during participation at a trade fair or being a member in trade missions. (Kuada, 2008)

The second approach described by Kuada (2008) is the systematic approach. The managers of companies willing to internationalize the business, must have a good knowledge of the international markets in order to identify which markets provide opportunities and which markets should be avoided. The systematic approach consists of developing and structured process for identification, collection and analysis of the data, necessary to identify the aspects mentioned before.

Furthermore, the systematic approach to international market selection is divided in two alternative approaches. These two alternatives are the expansive approach and the screening approach. The expansive approach is described as a method used by companies when they decide to internationalize gradually and start the expansion process in countries that are culturally and geographically close related to the home country. On the other hand, companies that are approaching the expansion totally different and internationalize in overseas countries that may have a business environment way different to the domestic environment, use the screening approach. (Kuada, 2008)

The representative of Grupo CMEW, interviewed by the researchers, mentioned the interest of the company in expanding the operations on the European Market due to different opportunities identified, such as the relatively low potential price that their product may have on the EU market:

*“Therefore there is a need to identify the demand and the way to attract the target audience. Exchange rate is still supporting the internationalization as well. The product is relatively cheaper in EU”* (Appendix 9).

As a result of the literature review and having in mind the vision of the company, the authors of the current study identify the screening approach the most appropriate to solve the current business problem.

### The screening approach

Kuada (2008) defines the screening process of the international market selection as a *“systematic filtering of the global markets using a set of criteria and in the end arriving at the market which is considered the most suitable for the firm”*.

The role of the screening model is particularly important for companies that encounter difficulties in identifying the potential customers and the reliable channel members, aspects that are playing a crucial role for every organization not only for the ones expanding the operations in new markets. In addition, the screening model can also reduce the uncertainty that many managers may have to deal with while being involved in taking decisions regarding the future steps in the internationalization process, and regarding the market where the company should enter. (Kuada, 2008)

Author Svend Hollensen (2011) presents a 4 steps market screening framework for international market segmentation:

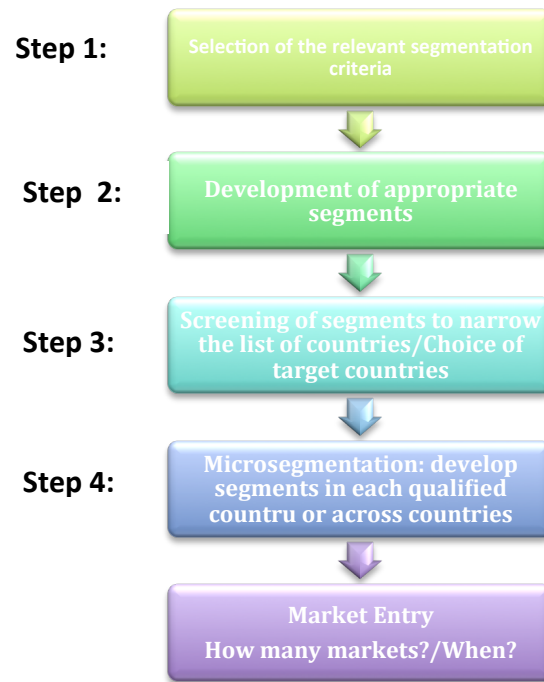


Figure 12 International Market Segmentation (Source: own creation based on Hollensen, 2011)

As it can be seen in the above Figure 12, the screening approach involves a few steps in which a list of countries or markets are analyzed considering different characteristics or variables. This analysis will lead in the end to a better understanding of the macro-economic aspects of the market as well as a better understanding of the market of interest. In the current research the market of interest being the coffee market.

The first two steps of the screening process involve setting up a list of variables that are going to be used to analyze the situation of certain countries or geographical area. Firstly, the list of countries that are going to be included should be chosen having in mind the objectives of the company (Kuada, 2008). Secondly, the variables for the initial screening have to be defined and can include:

- **Macro-Economic Indicators:** stage of development, inflation, balance of payments, currency, labor cost, economic growth;
- **Political Indicators:** Political stability, attitude to foreign business, bureaucracy;
- **Legal Indicators:** Enforceability of contract
- **Social Indicators:** Poverty level
- **Technological and Infrastructural Indicators**

- **General Market Indicators**

After gathering all the secondary data necessary for the analysis of the variables mentioned above, the countries will be scored using evaluation criteria and afterwards, few countries that are meeting the conditions required by the manager or the researcher will proceed to the next step of the screening process. (Kuada, 2008)

The next step will be to decide on the evaluation criteria for the next screening phase. This step can include according to Hollensen (2011) an analysis of the political risk to enter the foreign countries, the restrictions in imports or the performance of the local economy, having in mind aspects like the gross national product or the percentage of the government spending from the gross national product.

Besides the above-mentioned aspects in the current stage the country attractiveness and the competitive strength for the specific market has to be scored. The attractiveness of the market is represented by the size of the market, the growth of the market, the buying power of the population. On the other hand, the competitive strength includes aspects like the price of the products, the market shares, market demand, quality, marketing ability, etc. (Hollensen, 2011).

Finally, the last steps consists in selecting a few countries that will go through an in depth analysis. This analysis will consist in having a wider look on all the aspects covered in the previous steps and on the market potential.

## **Boston Consulting Group Matrix**

In 1970, consulting company, more specifically Boston consulting group has developed a matrix. It has been used as a decision-makers' management tool for priorities identification in the company's product portfolio optimization, effective investment allocation, and market analysis as well as production evaluation (Mutandwa, et al., 2009). This two dimensions matrix takes into account variables as market growth and markets share, in order to come up with foundations for strategic decisions. Market share is shown horizontally, while market growth is

defined on the vertical level. There are certain practices in order to develop or create four fields within the matrix.

Mentioned consulting group distinguish between low and high market growth by using a distinction point of 10 percent of a real market growth. On the other hand, market share must have a distinction point as well and in this case it is defined via a ratio referencing to the largest competitor in the market (Mutandwa, et al., 2009). The distinction point between low and high market share is the ratio of 1.0 (Hambrick, MacMillan , & Day, 1982).

- Relative market share – There are several factors for evaluation of business portfolio, while one of them is relative market share. The higher is the market share, the higher are cash returns. Economy of scale theory says that when the firm produces in a higher quantity, it leads to higher profits. It is important to mention, that some companies may experience the same profits with the lower market share and production anyway (Mutandwa, et al., 2009).
- Market growth rate – The earnings of the firm increase when the market growth rises. Usually, in order to increase market growth the additional investment is needed. By saying so, companies active in fast growth environments are marked as money users and are worth investing in case when they are forecasted to grow or keep market share in the future (Mutandwa, et al., 2009).

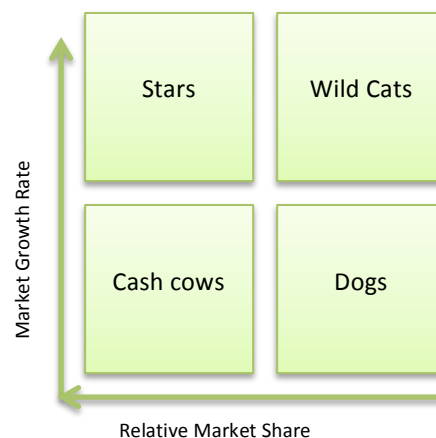


Figure 13 Boston Consulting Group Matrix (Source: own creation based on Mutwanda, et al., 2009)

As seen in the Figure 13 the matrix defines four fields, where every field possesses certain characteristics needed for managerial decisions:

- Cash cows (high share/low growth) are the brands or products showing the highest profit and should be “squeezed” to generate as much money as possible. Later, it should head to stars to support the further development. Companies should not pure more money into cows; rather only maintain their market share. Of course cash cows could be also an innovative group which may lead to redesigns and then a product will become a new start. Recommendations: product development, diversification, divestiture.
- Wild Cats or Question Marks (low share, high growth) need a deeper investigation. They possesses low market share, but exists in the fast growing markets while spending huge amounts of cash with possible losses. There is a prediction of becoming a star, later a cash cow. They are not very promising and may turn into dogs, unfortunately after huge investments. They require very deep investigation to decrease risk as much as possible. Recommendations: market penetration, product development, market development, divestiture
- Stars (high growth, high share) exist in the high growth market and possess a high market share. They are generating cash as well as using it. They are usually worth of investments, since they are meant to generate cash flows. It does not have to be a case in rapidly changing environments, where introduction of new products can quickly shift them out and turn them into dogs. Recommendations: vertical and horizontal integration, market penetration, market development, product development
- Dogs (low share/low growth) need lower investments of cash, also known as cash traps and shows uncertainty of creating a profit out of investment. Dogs are characterized via not significant market share compared to their competition and exist in the slowly growing market. They are not worth of short-term investments rather for a longer period. If dogs appear in the analysis, they need to be deeply analyzed, because even though they are not an attractive group, after a deep analysis they may turn into an efficient tool

against the competition. Recommendations: Retrenchment, divestiture, liquidation.

In this study, BCG Matrix will be adopted and slightly revised in the analytical chapter, in order to create a tool helping investigate the potential of market segments (product types) in terms of product types to which Grupo CMEW is considering a penetration with new product. By identifying which segments are considered to be cash cows, dogs, stars or wild cats, researchers bring the foundation for strategic decisions in terms of specifying the appropriateness of investments in the certain segment.

## Analytical Chapter

This chapter is dedicated to work with secondary data as well as work with the data acquired at the data collection stage of this research. Firstly, it is necessary to investigate actual broadness of the current Global Value Chain of investigated Brazilian coffee producer and define the possible spaces for improvements and growth. After definition of possibilities of expanding the Global Value Chain, in this case internationally, there is a need of evaluation of potential markets. Therefore, the next step within this chapter is market selection, where potential markets are evaluated and scored in order to define the most appropriate one. Based on chosen market's characteristics, the market entry strategy will be discussed, including the subparagraph accounting for simulation of entering a new market with different product types. Then, researchers will basically come up with an appropriate market as well as appropriate product type, which lead to the last part of this chapter, named "Local marketing", dedicated to describe efficient marketing strategy when entering a particular market with a particular product.

### Global Value Chain Analysis

The concept of Global Value Chain was firstly described in the Theory Chapter as well as particular Coffee Global Value Chain. Now, being in the Analytical Chapter, this theoretical knowledge needs to be applied in order to determine the value adding chain of the researched Brazilian coffee producer with the aim to see the potential space for either company itself or new actors. Simply, it is necessary to perform a Global Value Chain Analysis.

Initially, first two steps of GVC analysis are based on identification of actors within the chain and also margin tracking process. Based on the exploratory research accomplished via Skype interview with the owner of the Grupo CMEW, the first two steps of the global value chain analysis of this particular production looks as following.

As seen in the [Figure 14](#), Grupo CMEW is now in charge with growing coffee trees, throughout harvesting and milling. Simply, for all the actions needed to

acquire a coffee bean from the coffee cherry. In this step the margin or the value added to the product, which is the output of this process within the chain account for 30% percent. This figure was gained during the interview with the owner of the Grupo CMEW.

*“For the agricultural product the margin is 30%. Extra margin of 30% is added with every step of the process until it reaches the final consumer. So if the company is also roasting the coffee the margin increases and so on.”(Appendix 9)*

The next step, which is classification, selection or also called grading of beans as well as packing the commodity based on the classification, has been outsourced so far. This is the first opportunity of improving the GVC, via performing this step by the Grupo CMEW, since the production volume is high, so the necessary machinery would at the end of the day decrease production costs. Based on the information mentioned in the previous paragraph, the margin gained via under this particular step is identical, 30%.

In case of exporting or international trade involving exporters, this step of the Value Chain has to be discussed in the broader extent. In the current situation, there has been no need of an exporting agent, as a matter of fact that the company was operating only within the domestic market. It will be further discussed when proposing the strategy for entering new foreign market via use of importer, since in the scenario of entering new international market, this actor and costs of this actor are tremendously important to keep the smoothness of processes within the GVC.

Classified and packed beans are ready for the sale, currently only within the producing country. In order to produce a product located further on the Coffee Global Value chain, roasting process is of necessity. As seen in the Figure 14 Grupo CMEW is currently outsourcing this step as well. In other words a strange company adds the value and therefore this actor instead of producer's owned actor will acquire generated margin (30%).

The following steps of GVC analysis accounts for improvements or “upgrading” resulting in higher margin, adjustment of a product in order to change the position, achieving a uniqueness, investigation of actors' profits and expanding the actual information. The upgrading goals for the investigated company are under the so-called “process upgrade” in order to reorganize the production system by

integration of innovative technology and product upgrade in order to increase value by developing a more complicated production. The authors of this paper has decided so, due to the current position of the company, product type that is currently manufactured, as well as lack of experience in the field of international export of the researched company.

The final step of this analysis is dedicated to the government structure, in other words how does the governance impacts the entire chain. It considers existing relationships and agreement found within the system and how is the system coordinated. Authors have identified the researched firm's government structure as the "Buyer-driven government structure" already described in the Theory chapter. The main entry barriers of such an organization are market information, product design and communication strategy (Daviron & Stefano, 2005). Key players of such a system pay the most of their attention on branding, design as well as marketing activities (Daviron & Stefano, 2005).

As discussed during the interview with Grupo CMEW, there is a need of strengthening the brand and brand's position. In case of entering a new market across the boarder, the knowledge of the local market is tremendously important, to tailor appropriate marketing activities. So far, this actor has not been needed, but in the upcoming paragraph the local marketing of chosen country will be further discussed.

It has been found that there is a space of expanding within the Coffee Global Value Chain of Grupo CMEW, the question is only what is the most cost efficient as well as profitable structure of proposed repositioning within Global Value Chain. These answers will be found in the upcoming paragraphs dedicated to the market selection market entry strategy selection as well as product type selection.

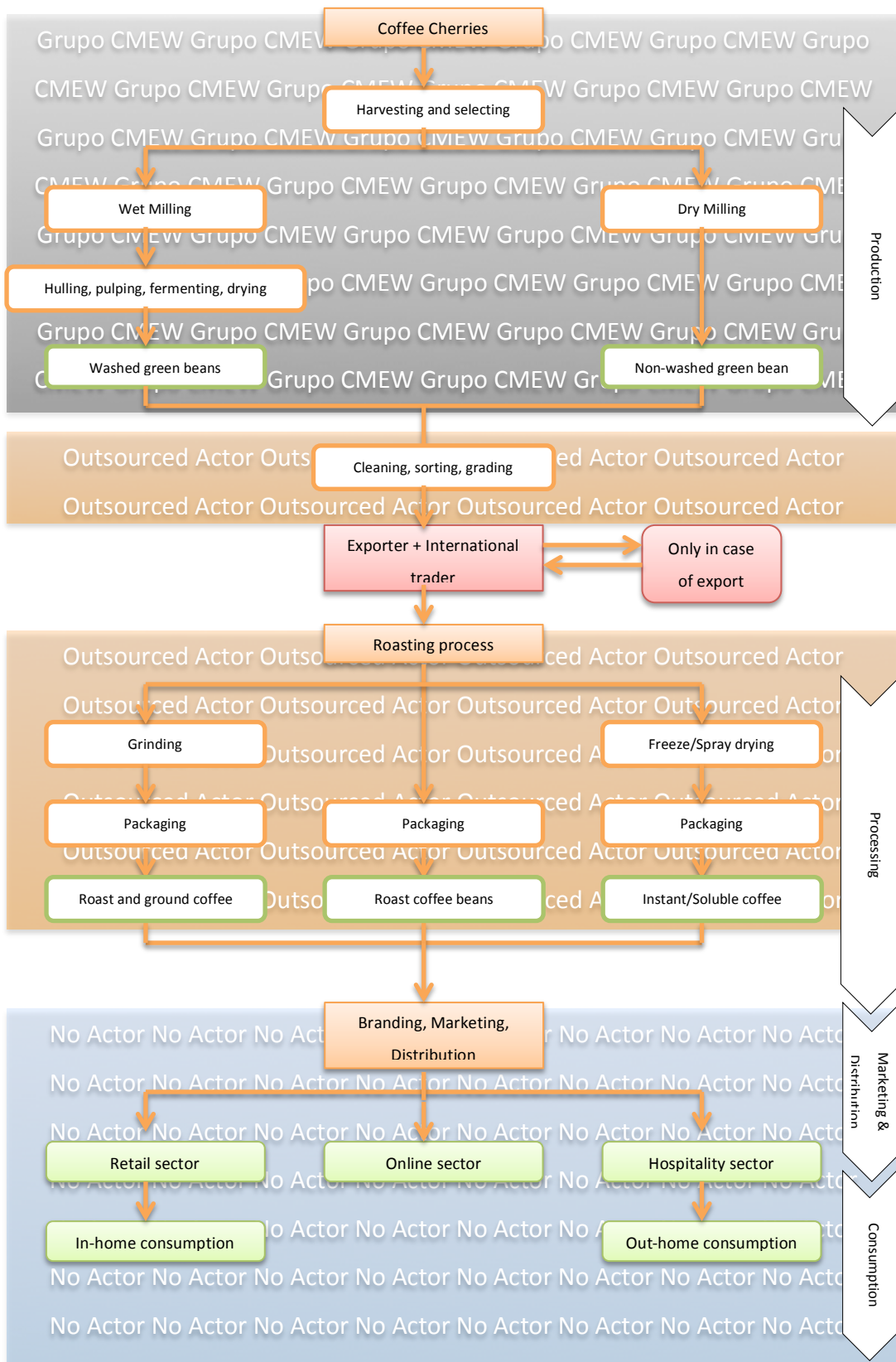


Figure 14 Global Value Chain of Grupo CMEW (Source: own creation based on Exploratory Research)

## International Market Selection

The aim of the current part of the research is to find the most appropriate country to enter for the Brazilian coffee producer, Grupo CMEW. In order to provide the company with the necessary information and recommendation to enter a certain market, it is important to generate knowledge of the factors that may influence the activity of the company in the country of interest. Therefore, in the first level of this analysis factors such as Macro-Economic Indicators, Political Indicators and Social Indicators will be included. After that, in the second step of the analysis the focus will be on the market of interest, which is in this case the coffee market.

The authors of the project will consider countries located in the western part of the Europe, countries that are members of the EU. The decision to analyze these countries is based on the interview with the Managing Director of Grupo CMEW who expressed his interest in the European Coffee market.

*“We would like to do value adding to our products both in Brazil and EU”.*  
(Appendix 9)

Besides this, he pointed out that his company's products could be competitive on the European market given that it is at lower price.

*“Exchange rate is still supporting the internationalization as well and the product is relatively cheaper in EU”* (Appendix 9).

Due to this reason, the authors consider the expansion activities of the Grupo CMEW in countries within the Central and Western part of Europe. In order to have a reasonable range of countries for the analysis there will be included only the following ones: France, United Kingdom, Germany, Spain, Portugal, The Netherlands, Belgium, Denmark, Italy and Austria.

As it was previously discussed, in the first step of the market screening process, variables related to the macro-economic, political and social environment will be analyzed, as well as the coffee consumption per capita, followed by explanation of the variables included in the analysis and their importance for the research.

- GDP – The Gross Domestic Product (GDP) of a country is one of the most important economic indicators and it is represented by the total value of the goods and services produced by the local economy during one year. In the

GDP is included also the income generated by the international activities of the country (Hollensen, Global Marketing, 2011).

- GDP per capita – It is represented by the total GDP divided by the number of the citizens living in the country and it reveals the average standard of living of the citizens (Hollensen, Global Marketing, 2011).
- Unemployment Rate – The unemployment rate of a country represents the total number of unemployed people as a percentage of the total labor force from the same country (Black, Hashimzade, & Myles, 2015).
- Inflation Rate – It is represented by the increase rate of the price index and it is usually measured in annual terms (Black, Hashimzade, & Myles, 2015).
- Corruption Perception Index – Transparency International develops The Corruption Perception Index and it is based on different opinions from experts from all around the world about the perceived levels of the public sector corruption. The measuring scale is from 0 which represents a highly corrupt country and 100 which stands for a very clean country (Transparency International, 2014).
- Ease of Doing Business Rank – The World bank develops figures of The Ease of Doing Business Rank. If a country is ranked high it means the regulatory environment is more conducive to the starting and operation of a local firm” (The World Bank, 2015).
- Coffee consumption per capita – Given that the research is based on finding the proper market for a company running the activity on the coffee market, the authors decided that it is of great use to include consumption per capita in the first stage of the analysis data about the coffee consumption. It is important to include indicators about the coffee consumption, besides the economic indicators, in order to have a clear overview about the country and also about the potential and the attractiveness of the analyzed countries.

Country	Population (MM)	GDP (B US \$)	GDP/capita (US \$)	GDP Growth Rate	Inflation Rate	Government net debt (% of GDP)	Unemployment rate	Corruption perception index	Ease of Doing Business Rank	Coffee Consumption /capita
Austria	8.5	437.1	51,307	0.34	1.45	51.1	5	23	21	5.47
Belgium	11.2	534.6	47,722	1.04	0.54	65.4	8.492	15	42	4.90
Denmark	5.6	340.8	60,564	0.99	0.56	0.8	6.533	1	4	5.26
France	63.9	2846.8	44,538	0.36	0.62	87.4	10.2	26	31	3.16
Germany	81.1	3859.5	47,590	1.60	0.78	49.7	4.983	12	14	5.24
Italy	59.9	2147.9	35,823	-0.41	0.21	110.4	12.8	69	57	3.51
Netherlands	16.8	866.3	51,373	0.87	0.31	34.4	7.395	8	27	6.72
Portugal	10.3	230.0	22,130	0.90	-0.15	120.1	13.894	31	25	2.69
Spain	46.4	1406.8	30,278	1.38	-0.18	64.8	24.45	37	33	3.01
United Kingdom	64.5	2945.1	45,653	2.553	1.46	81.0	6.2	14	8	1.63

Figure 15 Economic Indicators (Source: International Monetary Fund, Transparency International, The World Bank)

In the next phase of the screening process the variables included in the above table have to be analyzed. The screening model, proposed by John Kuada (2008) and described in the theoretical chapter of the current research, involves scoring the variables included in the first stage of the analysis in order to reduce the uncertainty that Grupo CMEW may encounter during the internationalization process.

The authors of the research decided to score the countries included in the analysis as it follows:

- Each of the variables included in the above table will be analyzed. The country with the best performance on one indicator will receive 5 points, the country with the weakest performance will receive 0 points, while the country having an average performance will receive 2.5 points.
- Each variable will count differently in the analysis. The authors will decide which are the most important variables and the least important ones and will decide how much each variable will count in the final score in percentages. More precisely, all the variables included will have a defined weight in the score of 5%, 10%, 15% or 20%, and if summing all the variable weights this will count 100%. The final scoring will be made based on the points received at the performance analysis, described in the previous bullet point, and the weight of the variable. For instance, if a country scores 5 points at an indicator that weights 10%, the total number of points that country will

receive for the specific indicator will be 5 multiplied by 1, if the indicator weights 15% then the number of points the country receives will be 5 multiplied by 1.5 and so on.

## Screening process results

The tables below reveal the results of the first stage of the screening process and show how much each of the indicators included in the analysis weight on the final decision, a process briefly described above.

Country	Population 15%	Points	GDP 20%	Points	GDP per capita 15%	Points	GDP Growth Rate 10%	Points	Inflation Rate 10%	Points
Austria	0	0,0	0,5	0,8	3,5	5,3	1	1	0	0
Belgium	1	1,5	0,5	0,8	2,5	3,8	2,5	2,5	2,5	2,5
Denmark	0	0,0	0	0,0	5	7,5	2,5	2,5	2,5	2,5
France	4	6,0	4	6,0	2,5	3,8	1	1	2,5	2,5
Germany	5	7,5	5	7,5	2,5	3,8	3,5	3,5	2	2
Italy	4	6,0	3,5	5,3	2	3,0	0	0	4	4
Netherlands	2,5	3,8	1	1,5	3,5	5,3	2,5	2,5	3,5	3,5
Portugal	1	1,5	0	0,0	0	0,0	2,5	2,5	5	5
Spain	3,5	5,3	2	3,0	1,5	2,3	3	3	5	5
United Kingdom	4	6,0	4	6,0	2,5	3,8	5	5	0	0

Country	Government net debt 10%	Points	Unemployment rate 10%	Points	Corruption perception index 5%	Points	Ease of Doing Business Rank 5%	Points	Consumption per Capita 5 %	Points	Total
Austria	3	3	5	5	3	1,5	3	1,5	4,5	2,25	20,3
Belgium	2,5	2,5	4	4	4	2	1	0,5	4	2	22,0
Denmark	5	5	4,5	4,5	5	2,5	5	2,5	4	2	29,0
France	1	1	3,5	3,5	3	1,5	2	1	2	1	27,3
Germany	3	3	5	5	4	2	4	2	3,5	1,75	38,0
Italy	0	0	2,5	2,5	0	0	0	0	2,5	1,25	22,0
Netherlands	3,5	3,5	4,5	4,5	4,5	2,25	2,5	1,25	5	2,5	30,5
Portugal	0	0	2,5	2,5	2,5	1,25	2,5	1,25	1	0,5	14,5
Spain	2,5	2,5	0	0	2,5	1,25	2	1	1,5	0,75	24,0
United Kingdom	1	1	4,5	4,5	4	2	4,5	2,25	0	0	30,5

Figure 16 Country Scoring (Source: own creation based on several sources)

The weight of the variables was defined based on the authors research about the importance of each variable included. The most important variables for the authors were considered the population of the country GDP and GDP per capita.

Firstly, the population is an important indicator in order to identify what is the number of individuals to whom the company will try to sell the products, and the chance to identify a niche and reach customers for a specific product is higher where

the size of the population is big and diverse. Secondly, the GDP is a very important indicator because it measures the economic performance of a certain country. It should basically promise the purchase power of the population, or individuals within this population. Therefore, a high GDP, a high GDP per capita and a positive growth rate can reveal a good performance of all the industries in a country.

Thirdly, at a lower level of importance (10% weight) are the inflation rate and the unemployment rate. Even though these two indicators are weighing less at the final score their importance in understanding the economic performance of a country is quite high. The inflation rate is representing mainly the percentage change of the price for goods and services in one year period and it gives insights about the purchasing power of the people. The unemployment rate also reveals insights about the purchasing power of the people and about the standard of living (Hollensen, 2011).

Next, with 5% weight in the final score are the Corruption Perception Index, Ease of Doing Business and the coffee consumption per capita. The Corruption Perception Index and the Ease of Doing Business Index are indicator revealing information about the business environment in a country, more specifically, how easy is to establish a business and run it. However, the level of importance was low, according to the authors, because of the assumption that this cannot prove 100% that these indicators will reflect the problems or the benefits while running a business in a certain country.

Lastly, the consumption per capita of coffee was at a low level of importance because the authors intended to look in the first part of the analysis more in the economical and demographical characteristics of a country and in the second step to go deeper in the coffee industry.

As it can be seen in the red column, showing the total amount of points for every country, Germany received the highest amount of points, counting 38 points, followed by the United Kingdom with 30.5 points. The third country in this ranking is The Netherlands got identical score to United Kingdom of 30.5. Therefore those three countries will be further discussed and analyzed in detail.

When it comes to population, Germany is the biggest country in Europe (if Russia is not counted as being a European state) counting around 81.1 Million

inhabitants, which represents a huge potential market for Grupo CMEW. Besides this, United Kingdom, France and Italy are also countries with a high number of citizens. As an example, United Kingdom, the country ranked on the second place at the screening process, has a population of 64.5 Million people and it is placed on the 22<sup>nd</sup> position in the world population ranking (United Nations, 2012).

Secondly, looking at the GDP column in the [Figure 16](#) it can be seen that Germany has the highest domestic product from the analyzed countries, reporting in 2014 a GDP of 3,859 Billion US \$, and being the 4 country in the world when it comes to this economic indicator (International Monetary Fund, 2015). The second country in this ranking is again the United Kingdom, which has a reported in the same year a GDP of 2945 Billion US \$. On the other hand, the GDP of Netherlands is much lower compared to the previous two mentioned countries, reaching in 2014 the amount of 866.3 Billion US \$. It is also important to mention that UK has the highest GDP growth rate from the 9 countries included in the study, recording a growth of 1.46% in 2014 (International Monetary Fund, 2015).

Another important economic indicator where Germany, Netherlands and United Kingdom are performing well is the unemployment rate. In Germany, in 2014 the percentage of people without a working place from the total number of work force was 4.98%, in the UK the rate was 6.2% while in the Netherlands the rate reaches 7.2%. Looking at the bottom of the ranking, Spain has the highest unemployment rate, where about 24% of the working force does not have a job at the moment (International Monetary Fund, 2015).

In conclusion, the first stage of the screening process revealed that Germany, Netherlands and United Kingdom are the countries with the best economic environment from the analyzed countries and a high coffee consumption per capita, except United Kingdom. Besides this, the good economic situation along with the high number of citizens living in these two countries may result in a high potential for Grupo CMEW to find their market within one of these countries. In the next part of the research, the coffee market of the three countries mentioned above will be analyzed in detail, in order to understand better what are the trends and the demands nowadays.

## Germany

Germany, being the most important European coffee importing country and after U.S. the second most important in Germany in the world, is one of the biggest and strongest European country with approximately 80 millions inhabitants. It is located in the middle of the Europe possessing important harbors in Hamburg and Bremen, which gives this country an access to import and re-export of green and processed coffee (Thurston, Morris, & Steiman, 2013). Germany has had for a long time very stable economic situation; therefore potential consumers are not blocked from consuming coffee beverages due to the financial reasons.

The coffee history in Germany started in 1673 at the opening of the first coffeehouse, in German "Schütting", in Bremen. That time it was a luxury product and only wealth part of the inhabitants could afford it (Thurston, Morris, & Steiman, 2013). In the 1970 most of the small and medium coffee businesses as well as those in charge with import were located mainly in the harbor areas. In the past ten years, there has been a significant growth of local coffee shops as well as local roasting facilities, with around 300 roasters and 10 importers ad agents operating in German market (Thurston, Morris, & Steiman, 2013). Coffee is now perceived as a modern drink, being dynamic, urban and social. It goes in line with healthy lifestyle and it is the most consumed beverage in Germany.

Firstly, it is necessary to define actual status of the coffee consumption in the country. Afterwards, merging the secondary data as well as the data from qualitative research, the trends could be defined.

### *Consumption Habits*

The out-of-home consumption accounts for one quarter of the total coffee market in Germany, precisely in gastronomic venues as well as offices. The statistics from the year 2011 show that the most popular place for the enjoyment of such a beverage are bakeries with approximately 30% of the out-of-home consumption, followed by cafés with 13,5%. Vending machines are still relatively popular with the 10% share, as well as the petrol stations with the same share. Pubs, fast food restaurants and

restaurants are venues with the share of 5% each. (Thurston, Morris, & Steiman, 2013)

### *Coffee Industry*

This particular field of the business is created by importers, agents, warehouses, roasters, decaffeinated, soluble coffee producers, roasting equipment manufacturers, gastronomic sector and sustainability organizations. Tremendously important player in the coffee market is the German Coffee Association (GCA), located in Hamburg. It represents the coffee business within the entire value chain. They exist to lobby, to ensure positive legal and political circumstances, to share the positive image of the coffee in the country as well as provide all members with the professional scientific information. Within the European Coffee Federation, Association for Science and Information about Coffee and the Specialty Coffee Association of Europe are important and active members. Obviously, Germany is taking a part also in the International Coffee Organization. (Thurston, Morris, & Steiman, 2013) This overview definitely proves the importance of Germany within the Coffee sector as well as its power and influence within the coffee industry.

### *Statistics*

By looking at the figure below generally speaking, the coffee consumption has the negative tendency. When looking at the delta of recent years 2013/2012, the tendency is positive compared to the direction created within last five years. It has been seen that fresh beans and fresh pods achieved a growth at the expense of ground commodity.

	2010	2011	2012	2013	2008/2013	2012/2013
<b>Fresh Coffee</b>	<b>336,120</b>	<b>329,410</b>	<b>328,696</b>	<b>326,534</b>	-2.4	-0.7
Beans	41,061	45,282	50,731	54,619	77.7	7.7
Ground	295,059	284,128	277,964	271,915	-10.5	-2.2
Ground Pods	34,486	37,408	39,645	41,579	63.9	4.9
Standard Ground	260,573	246,721	238,320	230,336	-17.3	-3.3
<b>Instant Coffee</b>	<b>56,501</b>	<b>53,484</b>	<b>51,141</b>	<b>48,927</b>	-14.5	-4.3
Standard	55,591	52,578	50,245	48,044	-14.7	-4.4
Decaffeinated	910	906	897	883	2.6	-1.5
<b>Coffee</b>	<b>392,622</b>	<b>382,894</b>	<b>379,837</b>	<b>375,461</b>	-4.2	-1.2
	tons	tons	tons	tons	% growth	% growth

Figure 17 Sales & Growth in Germany (Source: own creation based on Euromonitor International)

The coffee product type showing the best performance in the year 2013 is a fresh coffee bean. Espresso machine with included grinder, or an extra grinder are the “must-have” products in order to consume the beverage. This equipment is to be found in most of the households, as a matter of fact that income levels in Germany are relatively high. Due to the drop in the green coffee prices, the volume of coffee beans increased more compared to the sales values.

Ground coffee pods show the second fastest growth in 2013. It is caused due to the increase of households occupied by a single person or a couple, with a need of a very quick, practical and uncomplicated preparation of the drink. There are two types of pods, hard pods and soft pods, but the first ones are preferred because of the reputation of delivering better taste. The increase of pods came at the expense of standard fresh ground coffee.

The category of instant coffee shows the negative tendency, due to the fact that only well know 2-in-1 and 3-in-one were pushing sales strong enough to achieve a growth within this segment in Germany. Standard instant coffee that is to be found in majority of households in Germany accounts for 66% within the category of instant coffee.

In the year 2013, branded products, mainly coffee capsules have significantly pushed the demand in the retail sector. Coffee capsules have moved the purchases from Internet to store-based retailing. It should not be forgotten that specialty coffee

shops, Internet retailers, electronics retailers as well as drugstores play an important role in the capsules sales.

In the previous years there was a significant dropdown in the coffee beans prices, which obviously affected prices and increased the competition. The most affected product segment was fresh ground coffee, while coffee pods and instant coffee was affected less significantly. Generally speaking, negative tendency of coffee consumption shows retail sector, while the opposite direction accounts for off-trade sector, mainly by expand of specialty coffee and coffee-to-go offered (Euromonitor International, 2014)

### *Competitive Landscape*

In this part of the analysis, the competitive landscape of the German coffee market will be discussed. The discussion will be mainly focused on the performance of the main players on the market during the past years.

<b>Company</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>
Mondelez Deutschland GmbH	0	0	0	0	19.4
Tchibo GmbH	13.4	13.3	13.7	13.4	13.3
Aldi Einkauf GmbH & Co oHG	13.2	12.9	12.7	12	11.6
Nestlé Deutschland AG	7.5	8.3	8.1	9	9.5
Melitta Kaffee GmbH	8	8.3	9	8.9	8.8
Alois Dallmayr oHG	8.5	8.5	8.3	8.1	8
Lidl & Schwarz Stiftung & Co KG	3.8	3.5	3.8	3.7	3.7
Lavazza Deutschland GmbH	2.7	3	3.1	3.1	3.2
Douwe Egberts Coffee &	2	2	1.8	1.9	2.1
JJ Darboven Holding AG	1.7	1.7	1.6	1.6	1.5
Krüger GmbH & Co KG	1.2	1.2	1.2	1.2	1.2
Kraft Foods Deutschland GmbH	20.4	20.1	19.3	19.2	0
Other Private Label	6.9	6.7	7	6.9	7
Others	10.5	10.5	10.7	11	10.7

Figure 18: Company Shares of Coffee: % Retail Value

In Figure 18 the value shares of the main players in the retail sector are shown. In 2013, the leader of the market was the international coffee producer Mondelez who gathered 19.4% of the total market. As it can be seen, there are no sales recorded by Mondelez between 2009 and 2012. This is because the previous name of the

company was Kraft Foods Deutschland and the data for those years can be seen in on the Kraft Food data row. Due to the increase in the competitiveness on the market and the increased number of products penetrating the coffee market, Mondelez market share slightly declined with 1% from 2009 to 2013.

Mondelez is followed in the retail value market share ranking by Tchibo GmbH and Aldi Einkauf GmbH. The market share for Tchibo during the last 5 years is rather flat, recording a 0.1% decrease from 2008. On the other hand, the third player on the retail coffee market, Aldi who is selling the coffee only in its own supermarkets, is losing market share during the same periods of time, decreasing with 1.6% since 2008. On the contrary, Nestle achieved the strongest increase in market share from all the main players. The company's market share increased almost continuously since 2008, excepting 2011, recording a 3% increase, and reaching 9.5% of the market in 2013 (Euromonitor International, 2014).

Brand	Company	2008	2009	2010	2011	2012	2013
Jacobs	Mondelez International Inc	13.5	13.1	13	12.6	12.5	12.5
Melitta	Melitta Unternehmensgruppe Bentz KG	8.2	8	8.3	9	8.9	8.8
Dallmayr	Alois Dallmayr oHG	8.4	8.5	8.5	8.3	8.1	8
Tchibo	Tchibo GmbH	8	7.8	7.3	7.6	7.2	7.1
Eduscho	Tchibo GmbH	5.4	4.8	5	5	4.6	4.4
Nescafé	Nestlé SA	3.8	3.8	3.6	3.2	3.2	3.2
Nespresso	Nestlé SA	1.3	1.7	2.2	2.5	2.9	3.1
Lavazza	Lavazza SpA, Luigi	2.3	2.6	2.7	2.8	2.7	2.7
Nescafé Dolce Gusto	Nestlé SA	0.9	1.1	1.6	1.8	2.2	2.5
Tassimo	Mondelez International Inc	1.2	1.4	1.7	1.7	2	2.3
Senseo	DE Master Blenders 1753 NV	1.9	2	2	1.8	1.9	2.1
Cafissimo	Tchibo GmbH	0.6	0.8	1	1.1	1.5	1.8

Figure 19: Brand Share of Coffee: % Retail Value

In Figure 19 data from Euromonitor International regarding the market shares by brand is shown. The company leading the market when it comes to company shares, Mondelez, has also the leading brand on the market. Jacobs is the most sold brand in 2013 owning around 12.5% of the total market. Moreover, besides Jacobs, Mondelez has another brand in the Top 11 brands shown above, this brand is Tassimo. Tassimo is a coffee capsule brand and along with the increasing popularity of single

serve coffee in Western Europe, the brand grew as well, as it can be seen in the above figure.

Strong presences in the Top 11 brands have Tchibo and Nestle, each of the company having 3 brands in this ranking. Tchibo`s most valuable brands are Tchibo which represents 7.1 percentages of the market, Eduscho with 4.4% and the coffee capsule brand Cafissimo with only 1.8%. On the other hand, Nestle`s most valuable brands are Nescafe, with 3.2% market share, Nespresso with a quite strong growth from 1.3% in 2008 until 3.1% in 2013, and another coffee capsule brand, Nescafe Dolce Gusto which has 2.5% share but increasing significantly as well.

### *Projection*

There has been a significant shift in the German Coffee Market during the last decade. Consumers have moved towards the high quality, convenience and lifestyle as well as the preparation of fresh coffee. The direction is also supported by the fact that espresso based beverages has seen an increase in popularity, but at least a half of Germans still consume roasted ground coffee, which is very traditional.

Huge workload of individuals as well as their desire to spend the free time effectively brings the demand for products that are ready in few seconds; simply time saving products are needed.

There is a projection of a tiny drop in the consumed volume but not due to the economical reasons, but rather due to aging of the population. Economic status of consumers has insignificant impact on the consumption, since coffee in Germany is not considered as the luxury product. This was confirmed also during the interview with coffee roaster Donau Caffee where the interviewee stated:

*“People in Germany have income good enough for a purchase of the specialty coffee. They are strongly interested in the information such as where does the coffee come from, who has produced it and how was it produced.”* (Appendix 4)

The owner of the well-known local roaster Espressone has stated the opinion in line with the previous one:

*“Nowadays, relationship and trust are tremendously important. People want to know where exactly the product comes from. We are looking for solid farms with*

*no child labor and also for sustainability. I keep explaining this to customers every day as well as showing them the pictures from the place of origin.” (Appendix 5)*

During the interview with the Kaffeerösterei Konstanz as well as with others it was said:

*“The value is made by quality, which is different from the one they can get in the supermarket. Of course the history of the product is always essential.” (Appendix 7)*

Once again, the quality and the background of the product is what drive the customers in the coffee environment in Germany. The only economic factor influencing the general consumed volume may be only the price of the raw coffee.

As mentioned before, Germans lifestyle comes with the tight working schedule, therefore coffee-to-go will be growing, especially during the working hours. It may happen, that this growth will be equalized by drop within the foodservice providers' coffee sales. Low-caffeine coffee and fair-trade coffee seem to be potential sales boosters in the future. Another important boost are coffee pods, since they started to be affordable also for the low-income customer segment. The prediction states the 4 % growth in the year 2015. The convenient products such as 2-in-1 and 3-in-one are to be on the same track.

The decline in the ground coffee was already explained throughout the aging of the German population, since most of the users using filter machines are mid-aged or elderly consumers. Even in this sector the opportunity comes for fair-trade and organic coffee products.

## United Kingdom

The British are well-known tea drinkers as well as soluble coffee consumers enjoying drinks at home. Out-of-home consumption possesses totally different characteristics. This nation consists of 62,4 Million inhabitants turning into stable specialty coffee drinkers preferring longer, milky beverage rather than straight espresso (Thurston, Morris, & Steiman, 2013).

The expansion of the British Empire and its tea-producing colonies in the 18th century has moved the coffee to the background. The habit of afternoon tea has

been acquired throughout all of the social classes. The only issue within the tea business in UK is that from the historical point of view people tend to keep executing this tradition at home, while tea entrepreneurs are hardly trying to move them to their outlets (Thurston, Morris, & Steiman, 2013). Oppositely, coffee is mainly appreciated via professional espresso machines as well as baristas' artistic skills, knowledge and convivial input found in the out-of-home coffee outlets. The boom started in the 1990s throughout cafés, leisure centers, petrol stations, and office centers that are now very successful sectors. At the moment, the UK is the European leader in the growth in the consumption and spread of outlets. Allegra Strategies predicts the total of 18 000 coffee outlets and 7 billion pounds of turnover during this year (Thurston, Morris, & Steiman, 2013). The UK's branded coffee chain market is forecasted to be the driver of the overall market. Therefore Allegra predicts the growth of six percent with at least 6000 coffee points in the year of 2015 with reaching the turnover at the 3.2 billion pounds.

The branded coffee retailer chains such as Costa, Starbucks, Caffé Nero, AMT coffee are dominating the market with the leader Costa Coffee with approximately 1400 outlets. On the other hand, independents, artisanal coffees are providing consumers with specialty premium coffee supported by a strong customer relationship are being an inspiration for bigger players. Espresso based coffee beverages have been successfully adapted within the UK mainly due to the sector's big players, travel coupled with the education. Is possible to say that British consume coffee everywhere, starting from trendy extension of home, to pubs, hotels, community centers, bistros, garden pubs or Wi-Fi providing venues. In the bigger cosmopolitan cities takeaway coffee can never be neglected (Thurston, Morris, & Steiman, 2013).

Affected by the spread of the coffee retailers and specialty coffees, people are buying more and more premium coffee mainly roasted and ground coffee coupled with coffee beans. This led them to the investment in the brewing tools as well. French press is the most common tool followed by filter, stovetop or a pod device.

The British coffee market can be split into two pieces. First piece consists of international consumer retail brands (Nescafé, Kenco, Douwe Egberts, etc.)

consumed in and out of home. Out-of-home café and coffee shop brands and supply chains represent the second half. Roasters, investors and speculators, mainly buy coffee beans while the roasters show the highest growth (Thurston, Morris, & Steiman, 2013).

The future of the UK's coffee consumption is seen through the eyes of well informed, experienced coffee drinker and coffee-aware individual that looks for a reasonable price-quality ratio, healthy and sustainable product. The demand for a single origin, in-shop roasted beans will secure the space for local coffee specialists. This performance will also force big chains to provide comparable quality and service (Thurston, Morris, & Steiman, 2013).

### *Consumption Habits*

Even though the United Kingdom is traditionally a country where usually people prefer tea rather than coffee, during the last decades the coffee became more and more popular. The young population is one of the consumer segments that drives this change. Nowadays, young people enjoy spending time in a coffee shop and socializing while drinking a cup of coffee, in the UK this lifestyle being particularly enjoyed by women. Moreover, the busy lifestyle of the office workers influenced the increase in coffee consumption because many of them developed a habit to take a cup of coffee to go before going to work (Euromonitor International, 2014).

### *Statistics*

The table below contains information provided by The Euromonitor International, information about the evolution of the coffee market in the retail sector between 2010 and 2013.

	2010	2011	2012	2013	2008/2013	2012/2013
<b>Fresh Coffee</b>	<b>18,905</b>	<b>20,165</b>	<b>22,564</b>	<b>25,004</b>	<i>49.2</i>	<i>10.8</i>
Beans	775.1	797.5	846.1	877	27.2	3.7
Ground	18,129	19,367	21,718	24,127	50.1	11.1
Ground Pods	1,029	1,362	1,685	2,200	242.2	30.6
Standard Ground	17,100	18,005	20,033	21,927	42.1	9.5
<b>Instant Coffee</b>	<b>41,357</b>	<b>42,668</b>	<b>44,294</b>	<b>46,146</b>	<i>19.2</i>	<i>4.3</i>
Standard	35,673	36,921	38,284	39,930	20.6	4.3
Decaffeinated	5,684	5,746	5,965	6,216	11.2	4.2
<b>Coffee</b>	<b>60,262</b>	<b>62,833</b>	<b>66,814</b>	<b>71,151</b>	<i>28.3</i>	<i>6.5</i>
	tons	tons	tons	tons	<i>% growth</i>	<i>% growth</i>

Figure 20 Sales & Growth in UK (Source: own creation based on Euromonitor International)

As it can be seen, the overall coffee consumption (taking into consideration both fresh coffee and instant coffee) increased significantly during the period 2008 – 2013, the statistics revealing a growth of more than 28% during this period of time. Looking closer at the statistics and analyzing each category it is important to emphasize the fact that each of these categories grew between the same periods of time.

In 2013, the coffee category with the best performance was the standard instant coffee, having a share of 55% of the total off-trade sales. Even though, the consumers in the UK tend to change their preferences and shift to coffee products with a higher quality, the instant coffee category is still growing, having an increase of 4.3% between 2012 and 2013. According to Euromonitor International (2014), one of the reasons behind the popularity of the instant coffee is the new alternative to high quality coffee, which is the whole bean instant coffee also known as micro ground instant coffee. Besides this, the lifestyle of the people living in this region, mentioned before in the consumption habits part, is another factor influencing positively the market performance of the instant coffee. People find it convenient to brew a coffee in a few minutes even though the taste and the quality of the coffee are much worse compared to a coffee brewed using fresh ground coffee.

Another category of coffee products significantly increasing the popularity between 2008 and 2013, are the coffee pods used for brewing a single cup of coffee.

The coffee pods had the highest increase among all of the coffee categories, reporting a 242.2 percentage change. The single serve coffee market is generally becoming more and more popular in Western Europe since people find it convenient and the number of single households increased.

### *Single Serve Coffee*

The single serve coffee category (coffee pods) is the most dynamic coffee product category during the past years in the UK, as it can be seen in the Figure 20. In 2012, the key patents of Nespresso expired and many companies started to produce coffee capsules compatible with the Nespresso's coffee machine. One of the most successful companies who entered the coffee pod market in UK after the Nespresso patents expired is CaféPod. CaféPod managed to reach a turnover of 500 thousand Pounds in the first eight months of activity on the market (Euromonitor International, 2014).

Along with the increase in the consumption of coffee pods, the coffee machine sales grew as well in 2012. The coffee consumers perceive the coffee brewed at home using a capsule machine as an alternative to the quality coffee served in a coffee shop. The coffee machine sales were dominated by Tassimo and Nescafe Dolce Gusto, most probably because these companies provided cheaper machine and coffee capsules than Nespresso (Euromonitor International, 2014).

### *Projections*

In the retail sector the coffee sales are expected to continue the positive trend and reach an average increase in value of about 6%. Furthermore, the volume sales will grow as well, having a constant average growth of 4% in the coming years. The growth in the coffee retail sales in the upcoming period, both in value and volumes, is particularly driven by the rise in the coffee pods category because people look for convenient alternatives to brew the coffee and they also want to recreate the café experience at home (Euromonitor International, 2014).

Besides the increase in the coffee pods category, the instant coffee is expected to perform well in the upcoming period. The instant coffee category in the

UK will keep the leading position on the market, even though the overall trends reveal that people shift to high quality coffee. The sales value of the category will grow with an average of 5% while the volumes are expected to rise with about 3% in the near future.

According to Euromonitor, the coffee prices in the UK should increase constantly because of possible problems with the supply of green beans. However, the price of the premium coffee will maintain the current unit price, while on the coffee pod market, new private label companies are expected to enter the market and provide cheaper products compared to the ones available on the shelves at the moment.

## Netherlands

Pieter van der Broecke was a Dutch merchant that is believed to be one of the first Dutch men to try coffee out, specifically in Mocha, Yemen in 1612. He has also obtained live coffee trees and transported them to the Botanical gardens. It was relatively small event resulting in the event having a major impact on the history of coffee in Netherlands. They have adjusted to the conditions and produced number of *Coffea Arabica* bushes. In couple of years the Dutch colonies had become one of the main suppliers of coffee to Europe. (The Belgium & Netherlands Coffee Guide, 2014) Nowadays, as found in the country scoring table as well as on the website Theatlantic, it is defined that Netherlands is considered as the biggest coffee drinker when it comes to the consumption per capita with 2.4 cups per day followed by Finland, Sweden Denmark Germany and Slovakia. (Fredman, 2015). Therefore, this country is one of the most attractive markets for new coffee players considering countries within Europe.

### *Consumption Habits*

During the last years the way that Dutch coffee consumers perceive this commodity has changed. In the past, coffee was seen as a traditional commodity product with no other benefits besides the energy boost, but nowadays the consumers are becoming more and more aware about the variety of the coffee, locations were the

coffee is grown, the different qualities and also about the formats, such as freshly ground coffee, brewed coffee, pods and capsules. Besides the increasing awareness regarding the value chain of the coffee, packing options and variety, which creates a stronger connection between the coffee consumer and the product itself, it has been noticed in the Netherlands that the coffee is increasing in popularity because people are viewing the coffee consumption as a method to create special moments during an ordinary day.

Even though, drinking a cup of coffee is mainly seen around the world as a relaxing moment, the Dutch consumers are mainly driven by the physical need for caffeine when they decide to drink a cup of coffee rather than having a break. This aspect has an impact on the price, making the consumer price sensitive and also moving the consumption trend from out of home (coffee shops, restaurants etc.) into the home consumption. However, it has been noticed that people still do not want to abandon totally the habit to drink a quality coffee and therefore this influenced the sales increase of the premium coffee in the retail sector, despite the price issues.

### Statistics

The figure below contains similar set of statistical data to the one used to analyze the German and the British coffee consumption, data provided by Euromonitor.

	2010	2011	2012	2013	2012/ 2013	2008/2013
<b>Fresh Coffee</b>	<b>90,808</b>	<b>90,983</b>	<b>87,236</b>	<b>84,850</b>	-2.7	-3.2
Beans	4,022	5,410	5,984	6,679.5	11.6	79
Ground	86,786	85,573	81,252.0	78,170	-3.8	-6.9
Ground Pods	33,789	34,430	31,541.2	30,100	-4.6	-5.4
Standard Ground	52,998	51,143	49,710.8	48,070	-3.3	-7.8
<b>Instant Coffee</b>	<b>5,013</b>	<b>5,042</b>	<b>5,129</b>	<b>5,139</b>	0.2	-0.2
Standard	4,598	4,634.6	4,720	4,729	0.2	0.4
Decaffeinated	415	407	409	410.0	0.2	-5.9
<b>Coffee</b>	<b>95,821</b>	<b>96,025</b>	<b>92,365</b>	<b>89,989</b>	-2.6	-3.1
	Tons	tons	tons	tons	% growth	% growth

Figure 21 Consumption of Coffee (Source: Euromonitor International)

As it can be easily concluded from the above figure, the coffee consumption has a negative trend, decreasing almost continuously from 2008, with an exception in 2011. According to the study made by Euromonitor on the Dutch coffee market, even though the volume sold decreased, the sales value increased significantly during the same period. The retail sales volume decreased with 3.1% in 2013 compared with the result for 2008. On the other hand, the value of the coffee sold in the retail sector increased with 26.4% since 2008, but decreasing in 2013 with about 4.3% compared to the previous year.

	2010	2011	2012	2013	2012/2013	2008/2013
<b>Fresh Coffee</b>	<b>749.2</b>	<b>866.5</b>	<b>919.6</b>	<b>878.0</b>	<b>-4.5</b>	<b>28.8</b>
Beans	36.5	50.4	58.1	68.8	18.4	119.5
Ground	712.7	816.1	861.5	809.1	-6.1	24.4
Ground Pods	371.7	447.1	464.8	446.6	-3.9	33.9
Standard Ground	341.0	369.0	369.7	362.5	-8.6	14.5
<b>Instant Coffee</b>	<b>93.9</b>	<b>98.0</b>	<b>104.0</b>	<b>101.7</b>	<b>-2.2</b>	<b>9.1</b>
Standard	81.7	86.1	91.8	89.4	-2.6	10.7
Decaffeinated	12.1	11.9	12.1	12.3	0.9	-1.1
<b>Coffee</b>	<b>843.1</b>	<b>964.5</b>	<b>1,023.6</b>	<b>979.6</b>	<b>-4.3</b>	<b>26.4</b>
	MM EUR	MM EUR	MM EUR	MM EUR	% growth	% growth

Figure 22 Consumption of Coffee (Source: Euromonitor International)

The reason behind this market results is found in the consumer preferences and the change in how Dutch people perceive coffee nowadays. The coffee consumers from Netherlands started to be more and more interested in the quality and the value of the coffee and this trend led to an increase in sales for the premium coffee segments and also to the introduction of more and more coffee ranges with added value. According to Euromonitor International (Euromonitor International, 2014), the most popular ranges from the premium segments are the luxury ones and, what is more interesting for the current study, the ranges that are claiming to be healthy, pure and natural coffee products. Even though, the retail sales value of the coffee

increased, mainly driven by the premium category, there is a negative trend in the price evolution in the low end and middle end coffee segments because of the increasing in popularity of the discounters, such as LIDL. Discounters like LIDL are selling their own coffee brands and they push the products on the market with an increased price promotion in order to keep their market share at a constant level (Euromonitor International, 2014).

Looking at the coffee sales by category it can be seen that the most popular product is the fresh standard ground coffee. The fresh ground coffee category, even if is the leading product in 2013 within the coffee products has the highest negative evolution among all the categories in terms of volume share, since 2008 the standard ground coffee sales decreased with 7.8 percentage points.

The green coffee beans are the only coffee products that increased in volume sales from 2008. This is one of the results of the Dutch consumer preference towards quality coffee, since the coffee made of fresh ground beans is perceived as having a good quality. The fresh bean category in the retail sector represented in 2013 only 7.4% of the total volume sold but this category increased with 79% from 2008 and with 11.6% between 2012 and 2013, confirming the statements mentioned before.

As it can be seen in the **Error! Reference source not found.**, the single serve coffee market, in the table named "Ground Pods", is a very important category of the total coffee market in Netherlands. The single serve coffee represents 33.4% of the total quantity of coffee sold in the retail sector in 2013. The category is losing market share during the last years, having an average decrease of 5.4% since 2008 and there are several reasons driving this negative trend.

One of the reasons of the negative trend is found in the coffee pods sub-category, more specific within the soft pods, where the main brand within the category is Senseo. The coffee pods brewing systems and the coffee brewed using these systems are starting to be seen as products with a lower quality compared to the fresh beans and the hard pods, and also quite expensive when is compared with old fashion brewing methods, for instance drip coffee and filter coffee. The reason behind this shift in coffee consumption, from low quality to high quality, is because the Dutch consumer seeks for a special moment while drinking the coffee, whether is drank at home or in a coffee shop. In order to replace the decrease in sales for the

soft pods Senseo system, a new brewing system has been launched by Senseo, called Sarista. The new Sarista system is a coffee machine to which the consumer has to attach a plastic box, filled with coffee beans, and the machine will grind and brew the coffee. The launch of this new system from Senseo confirms the belief that people tend to change from the products with a lower quality to fresh coffee beans.

### *Projections*

According to Euromonitor International, the current decrease in the sales volume will stop being an issue in the next few years but also the growth will be limited. The demographic factors may also influence the slow growth within the coffee market since the number of single and two person households will continue to increase in Western Europe and Netherlands.

It is also expected to see a continuous increase in the fresh coffee beans category, increase which will still be at a high level. On the other hand, the standard fresh ground coffee is expected to decline in both sales volume and sales value. The value within this category is under pressure since the coffee, the fresh coffee beans and the coffee pods are seen as more sophisticated products and therefore are losing popularity nowadays. Moreover, the activity of the retailers will influence this decrease, given that discounters are currently selling the standard ground coffee at reduced prices. The trend seems to continue due to the interest of the discounters to win market share in the category by reducing the prices.

Netherlands, United Kingdom and Germany have been analyzed on the higher level, due to their scores at the stage of country screening. Moreover, as seen above, the analysis of German market has been extended with competitive landscape and certifications. It has been done so due to the fact that Germany is considered as the market possessing best characteristics or performance when considering entering one of those three countries with the coffee product.

First of all Germany achieved the highest score at the stage of country screening with 38 points as the sum of different indicators introduced before. Population size, unemployment rate as well as the gross domestic product of Germany make the purchase power strong and stable. Secondly, when it comes to

the consumption of coffee, a significant difference is found as well. Germany has consumed approximately 375,461 tons of coffee in the year 2013, while United Kingdom only 71,151 tons and Netherlands 89,989 tons. As a matter of fact that Grupo CMEW is considering coffee pods and coffee capsules as an attractive segment, it is important to mention that Germany consumes 41,579 tons of this segment compared to Netherlands with 30,100 tons and United Kingdom with only 2,200 tons. When taking into account only this segment, nearly half of the Netherlands's consumption is made via coffee pods, while only one fifth in Germany and minor percentage not more than three percent of the entire consumption of United Kingdom is made via coffee pods. In such a case, Netherlands must be considered as the very attractive market, but since there are several instruments that need to be considered, Germany is definitely the market worth to be entered.

### **Entry Mode for the German Market**

In this part of the analysis chapter, the recommendation regarding the entry strategy for the Brazilian coffee producer Grupo CMEW will be discussed. The recommendation is mainly based on the secondary data, during the interviews performed with coffee professionals from Germany, as well as on the literature, presented in the theoretical chapter.

This part is divided in different themes where the authors of the research will analyze the statements and the opinions of the participants in the study, regarding aspects related to the entry modes, and also will investigate which products are the most suitable for the market that can later help with the entry mode decision.

### **Distribution Network**

When entering a new market it is important to have a good network for both distribution and for the supply of materials needed during the production process. This may be harder to be achieved by companies entering a new market, especially when the experience and the knowledge about the specific market are limited, ending up with a necessity of involving more resources than usual. In order to

overcome this problem or in case the resources of the company are limited, it is possible to use the network of existing companies from the market.

Most of the participants in the study mentioned the possibility of using their distribution network to sell a different brand. Some of the companies interviewed have the capability to roast coffee beans, supplied by the client or partner or from their own suppliers, pack it and sell it in the retail chains where they are currently merchandising their own brands.

Firstly, Reiner Sulzer from Espressone, a company selling whole beans, ground coffee and coffee pads, mentioned that they already have experience with this type of partnership:

*“We have customers that bring their coffee and we roast it but only good coffee. We charge per Kg 1 Euro, but in Germany you can also roast for 40 cents. We are also able not only to roast but also to pack it, label it and send it to our customers. For long-term relationships the price may be negotiable. We also provide different packing options and labeling options. (Appendix 5)*

*“For instance, Wurth is packing their coffee in our company because they wanted a high quality coffee which is related to their values.” (Appendix 5)*

Secondly, Markus Schlotter from L-Kaffee Rosterei, located near Baden-Baden, mentioned that currently has a similar project running for a coffee producer from Uganda:

*“Now the project of “Roasting for Uganda farmers and distributing for them within Germany” is on. So I roast it, pack it and I send it to his customers within Germany under his brand.” (Appendix 8)*

Lastly, Helmut Scholl who participated in the research from Donau Kaffee said that he has experience with producing for other companies but he does not get involved in the transportation of the coffee to the place where the product will be sold.

*“We do everything from roasting to packing. Everything can be adjusted based on partners’ requirements. Only the problem is that transport is quite expensive so this has to be discussed always. The roasting would cost than 10 EUR per kg including taxes, packing, and sale, but without transport. The best would be*

*to establish a logistic center and then to overcome high prices of transport.”*  
(Appendix 4)

As it can be seen before, most of the participants in the study mentioned that it is possible to do all the processes necessary to provide the customers with the final product. This finding could also be extended to the whole market and interpreted that many coffee roasters from Germany are interested in this kind of partnership. In this case, even though it will lead that the participants in the current study are not reliable for Grupo CMEW it should be possible to identify other coffee roasters that may have better capabilities and lower prices.

It is possible to conclude that this type of partnership with the local companies from Germany may be of benefit for Grupo CMEW. Entering the German coffee using this strategy can provide the management of the company with reliable information about the market and the distribution networks in a certain period of time. Later, this information could be used if the company will be interested in setting up own production facilities and own portfolio of clients.

## **International Experience**

Doing business in a foreign country may be sometimes hard for the company who decides to expand the operations abroad. One of the reasons for stating this is difference regarding the ways of working between countries because of the distinctive cultures, which can lead to communication problems between the involved organizations. Another aspect that can have an influence on the activity of the company abroad while working with the local company is the lack of experience with the international operations. The lack of experience with the international markets or the lack of experience with imports and exports (transport regulations, taxes, procedures in the harbor, contracts etc.) may be later influencing negatively the activity and it is therefore of great importance to be aware about all the regulations and the rules regarding these topics.

However, these issues mentioned before can be overcome while performing this kind of operations, and therefore gaining experience. The data collected during the personal interviews allow the researchers to identify to which extent the

companies interviewed are experienced with doing business at an international level.

A company running the activity in the coffee roasting sector in Europe, a region where the coffee trees do not grow, international business can be done both ways, selling the final products or purchasing the raw material. Therefore, at a first stance it may be concluded that the European coffee roasters are exposed to international business but the actual situation is different, this will be explained further in this sub-chapter.

Regarding the import of coffee beans, one output coming from the research is that most of the companies, who took part in the study, prefer to work with coffee trading companies, who are in charge with importing the green coffee beans. This is the case of:

Donau Kaffee: *“We are buying the coffee from the Inter American Coffee trading center located in Hamburg”* (Appendix 4)

Ettli Kaffee: *“We are buying the coffee from coffee traders, mainly from Inter American”* (

Appendix 6)

Kaffee Rosterei Konstanz: *“Direct trading is very complicated because you have to know the people who produce the coffee, you have to know how they ship it to the harbor, you need insurance for the transport, and it is really expensive. In my opinion the easy way to direct trading is to know the coffee farmer, in Brazil for instance, you tell him which types of beans you need, than you have an exporter who is arranging the transport.”* (Appendix 7)

Espressone: *“We are buying the coffee from trading companies located in Hamburg but we also have direct contact with the coffee farmers. The responsibility with importing is on the coffee traders that we work with.”* (Appendix 5)

On the other hand, L-Kaffee Rösterei is not doing direct trading neither buying it from coffee trading companies. Given that the company is quite small for doing direct trading, they are members of an organization where more companies take part and these companies import the coffee through the organization. Markus Schlotter from L-Kaffee Rosterei stated the following:

*“I am importing through the organization of coffee roasters, since then it is easier to import in smaller quantities.”(Appendix 8)*

Some of the companies interviewed, even though do not have experience with importing the coffee beans, have experience with roasting the coffee and sell it to foreign customers, this is the case of Donau Kaffee and L-Kaffee Rosterei:

Donau Kaffee: *“We roast for one guy in Austria and he does the rest. We do everything from roasting to packing.” (Appendix 4)*

L-Kaffee Rosterei: *“Now the project of “Roasting for Uganda farmers and distributing for them within Germany” is on. So I roast it, pack it and I send it to his customers within Germany under his brand.”(Appendix 8)*

To sum up, it is obvious that most of the companies do not have experience with working with foreign companies either clients or suppliers. Most of the companies interviewed prefer to procure the main raw material, the green coffee bean, from external organizations specialized in sourcing coffee. This is the case of 4 out of 5 companies who have been participating in the study. The main reason behind this choice it is not the fact that they are not interested in working directly with the farmers, but the fact that it is hard with the current resources to import coffee on their own.

On the other hand, only two of these companies have experience with foreign customers, doing private label for them. The interviewees from L-Kaffee Rosterei and Donau Kaffee brought the fact that they currently have in the client portfolio foreign companies, the first company mentioned doing for the client from Uganda everything from roasting to transportation, while the latter one mentioned that they are in charge only with roasting and packing the beans.

After summing up this part and after the experience during the study, the authors of the research can conclude that even though the interviewed companies do not have an extensive experience they are open to international business. One reason for saying this is the way they acted during the interviews. Both of the researchers involved in this study are not German natives, therefore from the beginning it was an international interaction. Since the beginning of the study, when the researchers tried to identify companies that could be interviewed, most of the companies who have been contacted were open about discussing the possibilities to

set up partnerships with a Brazilian coffee producer. Unfortunately, due to the limited financial resources, the wide geographical area of Germany and the strict period when the researchers have been in the area, allowed researchers to visit only a few of the companies contacted before starting the data collection, even though more of them accepted the interview, but the proposed times did not fit the research

## Product type

This part of analysis, analysis of product types, is dedicated to investigation of certain product types and the process of entering a market with each product separately. The initial step of this analysis is the categorization of coffee product types based on the Boston Consulting Group Matrix that was introduced in the Theory Chapter. Later, authors will discuss the description of steps necessary to undergone, when entering the market with certain product type supported with calculations of potential costs. Firstly, the adaptation of Boston Consulting Group Matrix needs to be introduced and described. Afterwards the results of analysis will be presented.

As seen in the theory chapter, in the original shape of BCG Matrix, Relative market share is defined via revenues or market share, by dividing a firm's market share (revenues) by market share belonging to the most significant competitor within the business area. Relative market share is shown horizontally within the Matrix. Here, researchers decided to adopt this analysis in order to investigate characteristics of product types within the German market. In order to do so, the "strongest competitor" is the revenue of the entire Fresh Coffee market with 3,904.3 mil/EUR (Euromonitor International, 2014). This figure is considered as the "strongest competitor" and put in the relationship with other product types in order to define the relative market share.

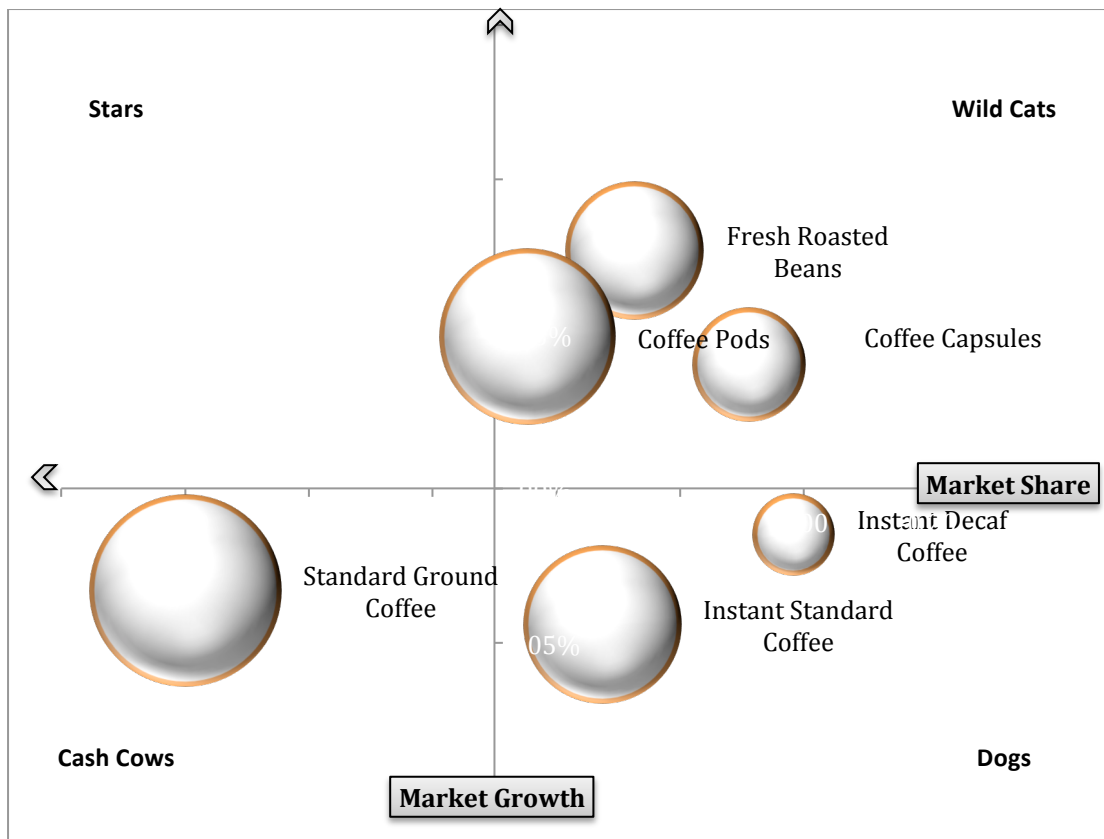


Figure 23 BCG Matrix Adjusted (Source: own creation based on data from Euromonitor International & others)

As seen on the BCG above there are no Stars within the coffee product types in Germany, therefore this group is not discussed.

Dogs, specifically instant Coffee, no matter if its decaf or not, is product segment showing the worst performance of all quadrants. Therefore, generally this group is not worth of investing money, especially for the long-term. As mentioned in the theory chapter, even this group may be useful for a marketing strategy via long-term investment, in order to support products appearing as cash cows or wild cats. Once again, in general it is recommended to cross those products out of portfolio.

Cash cow, or a group generating significant cash, is in this scenario Standard Ground Coffee. This is the market, worth to be entered due to its stability, and low level of volatility. On the other hand the market of Standard Ground Coffee is strongly penetrated, therefore there is a need of diversification. During the data collection within Germany, it was discovered that this type of coffee products is not using as high quality coffee as whole roasted beans. This was highlighted, because

owner of the Grupo CMEW mentioned, that the target is to enter high quality coffee market but anyway this product will be further considered as a potential group.

The analysis shows Roasted Beans, Coffee Pods and Capsules as product types belonging to the group of Wild Cats. They are described as segments with a high market growth but rather low market share. This group is in a very dynamic environment and after appropriate investment at the correct place, this group will most likely turn into stars, cash cows afterwards. They have to be considered as product types with a strong potential for new brands. As highlighted via managing director for Grupo CMEW, they would like to introduce a new brand and this is the area to be entered. One may think that Cash Cows product types are safer, which is definitely true, but as already mentioned the market is broad but also with many huge and stable players possessing a significant market share.

Based on this BCG Matrix, product types showing the best performance for entering the German market are the ones found in the quadrant named as Wild Cats. Now it is necessary to simulate entering a new market with certain product types and answer the questions regarding the entering process, costs and necessary partners.

The following chapters will describe steps needed to undergone when entering market with every particular product as deep as possible. This kind of stimulation will help managers to take a decision in regards with choice of enter-product.

## Green Beans

Green bean is the first stage of the coffee Global Value Chain that is saleable. As seen in the table below, the current price of Brazilian coffee is at the point of \$1,358/lb. Due to the target market of the project, units have to be transformed to the local ones, which are kilograms and euro currency. One US pound equals 0,454kg. Therefore, one kilogram of this particular coffee bean values for \$2,994, which equals €2,631 according to the current exchange rate (18/05/2015). Authors of this project have decided to work with the sales volume of 10.000 kilograms or ten tons in order to keep the outputs consistent in every calculation.

In US cents/lb					
	ICO composite indicator	Colombian Milds	Other Milds	Brazilian Naturals	Robustas
01-May	126.92	154.12	161.90	133.98	90.71
04-May	126.25	152.19	162.16	132.47	90.48
05-May	125.53	151.48	160.18	131.37	90.91
06-May	122.29	147.63	156.26	127.49	88.85
07-May	122.83	148.59	157.74	128.89	87.88
08-May	124.98	151.08	160.04	131.26	89.68
11-May	124.85	151.64	160.22	131.60	88.77
12-May	125.39	152.68	161.02	132.53	88.66
13-May	124.93	152.30	160.28	131.92	88.49
14-May	126.17	153.92	161.56	133.25	89.55
15-May	127.55	155.40	163.54	135.84	89.44

Figure 24 ICO Indicator Prices - May 2015 (Source: International Coffee Organisation, 2015)

Therefore, if Grupo CMEW is producing only green beans, the volume of ten tons equals the value of €26.310. Obviously, green beans have to be transported and imported to the German market, since this is the one chosen, based on the results of market selection presented in the previous paragraphs.

As seen also in in the Appendix 2 the total cost of importing green beans to Germany equals €53.403 with the price of beans included (Dutycalculator, 2015). Green coffee bean is a duty free commodity, but an excise fee of €2,19 per kilogram as well as VAT rat of 7% increase the costs significantly anyway. The importation of this commodity has to be in line with EU labeling standards, health and quality requirements inspected by the European Food Standard Agency (EFSA). This means that the price of 1 kilogram of beans with all additional costs paid would be at the level of €5,3 per kilogram so €318 per 60kg bag. The last thing necessary to include in this calculation is cost of storing the product until it is sold. Since we are unable to predict either the beans are picked up immediately by customer or it needs to be stored for couple of days or weeks, this figure will be ignored predicting the scenario that the product goes directly to the customer. In such a case the price stays at **€5,3** per kilogram of coffee beans produced by Grupo CMEW delivered to the customer picking up goods at Hamburg harbor (Dutycalculator, 2015).

Another way to get green coffee beans to the target market is via mediator, more specifically via an importer. The procedure starts with a conversation between producer and an importer, in most of the cases after cupping of delivered samples from the side of the producer to the importer. During the data collection at the London Coffee fair, there have been discovered couple of potential traders or so called distributors, such as DRWakefield, as well as company called Falconspeciality and List&Beisler GmbH. The Falconspeciality has provided researchers with appropriate contacts as well as willingness to receive samples from Grupo CMEW. Therefore, the initial step of the network approach as been already set. Two of the interviewee, more specifically the owner of Donau Caffee and Ettli Kaffee have mentioned, that their companies are working with Inter-American trading center, which is also another alternative channel. The company L-Kafferösterei highlighted the distribution channel of an international trader as well by saying:

*“Direct trading is rather complicated because you need to know the people producing the beans, you also need to know how to ship it to the harbor, you need be experienced with the transportation insurance for the transport and it is really expensive. In my opinion the easy way to direct trading is to know the coffee farmer in Brazil for instance, then tell him which type of beans you need afterwards you get in touch with the importer or exporter who is arranging the transportation.”*

As seen in the the importing company List&Beisler has provided researchers with the current coffee prices. It is shown that the coffee beans from the area possessing the same certification as the researched company Grupo CMEW is sold in Germany at the price of 5,69 €. The beginning of the importing operations seems to be the most effective via use of experienced importer and as soon as the demand is stabilized the costs of the direct importation may be precisely calculated and anticipated. After positive results of such a calculation, the direct importation process will be applied.

Brazil Cerrado, NY 2, screen 17/18, ss, fc, Fazenda Caracol - Cerrado tag certified ( <a href="#">in GrainPro bags</a> ), crop 13/14	3,03
Brazil natural Cerrado, scr 16up, ss, fc, Yellow Bourbon, Fazenda Pantano - Cerrado tag certified ( <a href="#">in GrainPro bags</a> ), crop 14/15	4,37
Brazil natural Cerrado NY 2, scr 16/18, ss, fc, Rose Diamond, Fazenda Chapadao de Ferro - Cerrado tag certified ( <a href="#">in GrainPro bags</a> ), crop 14/15	3,76
Brazil natural Cerrado "Caramelo Doce" NY 2, scr 16/18, ss, fc, Fazenda San Martin - Cerrado tag certified ( <a href="#">in GrainPro bags</a> ), crop 14/15	3,19
Brazil natural Cerrado Fazenda Nossa Senhora de Fatima, screen 14/18, Rainforest Alliance cert. + ORGANIC ( <a href="#">in GrainPro bags</a> ), crop 14/15	5,69

**Figure 25 Brazilian Coffee Beans Prices (Source: List&Beisler GmbH)**

## Roasted Beans

In order to attend the European market with whole roasted beans as well as with the Ground Coffee there are two possibilities of doing so. The product is produced in Brazil or the roasting process will take place in Europe, most probably in the target market, which is Germany.

When coffee is roasted in Brazil, with the plan of entering the European Market as a roasted product, there are several disadvantages. The importation of the roasted product compared to the unroasted beans comes with a duty rate of 7,5% which is €1.966,77 Appendix 3. On the other hand, the total customs value has been decreased from €28.010 to €26.224 compared to unroasted beans. In order to calculate as precise as possible, it is necessary to highlight that roasting process reduce weight for approximately 18% of total weight. So first of all, this makes delivery cheaper, but on the other hand it increases the final costs. Therefore, the final price of roasted beans landed and delivered to Germany has increased only by €1,22 with the total price of one kg at €6,5 compared to unroasted beans (Dutycalculator, 2015).

One significant disadvantage of transporting roasted beans is the fact that roasted bean is losing freshness and quality as the time passes. This may be a crucial fact, since the transportation from Brazil to Germany may take couple of weeks, which has to be summed with the time of distribution within Germany.

## Roasted in Germany

Roasting Green beans in Germany, which means restructuring the Global Value Chain in several countries comes also advantages and disadvantages. The freshness of roasted beans is always crucial, especially when selling to resellers. Therefore, if the coffee is roasted in the country where it will be also sold, the customer, no matter if it is an end customer or a retailer, will always get delivered freshly roasted coffee beans. On the other side, it will definitely bring the costs higher, since the labor costs are surely higher in Germany compared to Brazil.

Roasting process in Germany may be done in two ways. Either the roasting process will be outsourced, so an experienced company that has free slots within its

production will roast the coffee beans for Grupo CMEW or Grupo CMEW will setup a wholly owned roastery. During the data collection within Germany, this was investigated and some of the companies are willing to collaborate. As seen below the company Espresso expressed that the price of roasting starts at €0,40 up to €1,00 per kilogram of beans.

*“We charge per Kg 1 Euro, but in Germany you can also roast for 40 cents. We are also able not only to roast but also to pack it, label it and send it to our customers. For long-term relationships the price may be negotiated. We also provide different packing options and labeling options.”* (Appendix 5)

The coffee producer Donau Caffee has offered price of €10,00 per kilogram including taxes, packing, roasting, labeling.

*“The roasting would cost then 10 Eur per kg including taxes, packing, and sale, but without transport.”* (Appendix 4)

This offer is overpriced based on the undertaken research and therefore this partner will be ignored.

In order to stimulate the competitiveness of the production or roasting in Germany it is necessary to bear in mind following numbers. Based on the previous calculations it was defined that price of a green beans delivery to Germany is at the level of €5,3 per kilogram. Then, beans will be roasted as well as packed in a high quality facility for €1,2 per kilogram. Therefore, the final price of Brazilian beans roasted and packed in Germany is at **€7,9** per kilogram  $(5,3 * 10\ 000 + 1,2 * 10\ 000) / 8\ 200$ ). Obviously, those products need to be delivered to the final consumer, coffee shop, or supermarket.

Of course the prices are very general at the moment, because from what the interviewees said it is always necessary to establish a relationship and discuss the details, mainly quantity as well as regularity. The same issue has been discussed also with the rest, whose did not specify the price but rather asked for more information as mentioned before, quantity and regularity.

As mentioned before, the second option is to set up a wholly owned roaster. There are couple of investments need to be made, but after a deep investigation it is not as complicated as one would expect. Researchers have got in touch with the top quality German roaster producer (Probat) as well as with low price medium quality

Turkish roaster producer (Garanti). Researchers have decided to offer as the cheapest solution possible in order to express what are the minimal costs of setting up a local small-scale production. Afterwards, decision-makers will understand that in order to get higher volume and higher quality we have to work with topping up the price found below. To set up a small roaster in order to test the market following instruments are needed:

Instrument	Description	Price with delivery
<b>Roaster</b>	Garanti, roasting capacity-13kg per hour	€5650
<b>Espresso Machine</b>	3 Group Astoria Commercial Espresso Machine	€3000
<b>Grinder</b>	Rancilio Rocky	€300
<b>Packing station</b>	JY-K400 (30-60bags/min)	€3000

Figure 26 Initial costs for the local roaster Overview (Source: own creation based on several sources)

All of those instruments cost €11 950 in total excluding rent, deposits, and salary of two people (skilled roaster and sales representative) and variable costs such as bills and taxes. In order to super-simplify the year of real production it would be said that the costs and turnover of the company in one year looks as following

Costs	€	Turnover	€
<b>Initial costs</b>	11 950	6000 pieces of 250g(€25) coffee bags per year (500 pcs. per month)	150 000
<b>Employees</b>	35 000		
<b>Rent</b>	15 000		
<b>Bills</b>	3 000		
<b>Marketing</b>	2 000		
<b>Green Beans (1770kg)</b>	9 381		
<b>Sum</b>	76 331	Sum	150 000

Figure 27 Costs and Turnover for one year of local roaster Overview (Source: own creation)

Obviously, this calculation showing the profit before taxation of €73 669 is over simplified, but it was done so because this is not the main target of the research. It was only necessary to show how profitable might be the small-scale roaster even in

the German market when selling only one product at very low quantities, more specifically only 250g roasted coffee beans in the quantity of 500 pieces per month.

### Coffee Pods & Coffee Capsules & Ground Coffee

Similarly to the previously explained Roasted Coffee, this requires two additional steps, which is grounding and inserting the ground coffee into pods or capsules. Firstly, it has been planned to stimulate outsourcing filling of capsules and pods. After discussion with companies producing coffee pods and capsules during the data collection new facts surfaced. Those facts released unavoidable information not allowing such an outsourcing in order to make pods and capsules. The reason behind this statement is the fact that in case coffee beans are roasted in facility owned by Grupo CMEW, the coffee cannot be ground and inserted in capsules and beans at different location but rather at the same place in order to keep the quality.

Based on the discussion with the international sales manager of company Café Caps it was defined that there is one option how to capsulate private label coffee. “You can send us the beans if you can seal with nitrogen to keep the freshness. “ The price for this particular outsource is at the level of €0,012 up to €0,04 when outsourcing capsulation. Branded capsule lids are of extra charge at the level of €0,005 per piece. In case of considering the top outsourcing price, it is at the level of €0,045 per piece of capsule. Each capsule contains 6 grams of coffee. Therefore the final calculation looks as following. Since the starting point is always 10 000 kg of green beans, it means that the roasted beans would be at the volume of 8 200kg. This volume equals 8 200 000 grams of coffee and needs to be divided by 6 in order to come up with the potential amount of coffee capsules. 1 366 665 pieces of capsules are produced from 8 200kg of roasted and ground coffee. In order to calculate capsulation of 8200 kg of roasted coffee or 10 000kg of unroasted coffee the price of capsulation per piece is multiplied by number of pieces made from defined volume. The result, or in other words the cost of capsulation is €61 500 per 8200 kg, which means that one kilogram needs additional €7,5 for capsuling. One kilogram of coffee capsules, when outsourcing capsulation costs **€15,4**.

Due to the lack of necessary data coffee pods are considered same as the coffee capsules when it comes to outsourcing of filling pods.

Ground coffee is basically grounded roasted beans and therefore no additional costs are added since this step requires only one grinder that is the relatively cheap and lasts for decades. It is necessary to mention that if there is a loose of quality when transporting roasted beans from Brazil, roasted and grounded would definitely be affected. Therefore, the alternative of roasting and grounding in Brazil is ignored.

Product type	€/1kg Germany	Competitors price	Margin
Green Beans	€5,30	€5,70	8%
Roasted (Brazil) Beans	€6,50	€24,80	282%
Roasted (Germany) Beans	€7,90	€24,80	214%
Coffee Capsules	€15,40	€69,00	348%
Coffee Pods	€15,40	€73,30	376%
Ground Coffee	€7,90	€24,80	214%

Figure 28 Product Type Margin Overview (Source: own creation based on different sources)

Figure 28 shows the overview of product types taken into the consideration for entering the German market. The competitors price is considered as the price of product as similar as possible to product imagined by the owner of Grupo CMEW, so not the cheapest Brazilian coffee products found in supermarkets, but rather products with a solid quality sold via specialty coffee producers.

## Market Entry Approach

The purpose of the current part of the research is to gather the necessary information in order to provide Grupo CMEW with the appropriate market entry strategy for the German market. In the theoretical chapter, the literature regarding the foreign market entry modes has been discussed. There have been mentioned three main types of entry modes: Export Modes, Intermediary Entry Modes, and

Wholly Owned Modes. Basically, Grupo CMEW can use each of these entry modes mentioned before and the pros and the cons of them will be discussed in this part.

The export mode is perceived as a first stage in the internationalization process of companies. Many companies commence the international experience by selling their products to foreign customers without having any operational facility in the specific area. In this way, the company can gain experience about the market, the consumers and other business related aspects that later can be used to decide whether to invest in a sales office or a production facility in a specific country.

For Grupo CMEW, according to their view to enter the European coffee market with their own final product, the export mode will mean to ship the roasted coffee, whether is whole bean, ground coffee or coffee capsules to Europe. However, this may not be the best approach given that the distance between Brazil and Germany is very long and it requires a few weeks to deliver the goods. During this time the coffee may lose its quality. Besides this, another important aspect is the cost for transportation. The long distance between the two countries will have a significant influence on the transportation costs, and in the end the product may not be competitive anymore on the foreign market.

Secondly, the intermediate entry modes can be considered by Grupo CMEW if the management will decide to enter the German market. According to the theory analyzed in the theoretical chapter, the intermediate entry modes are represented by licensing, franchising and strategic alliances/joint ventures. The first two mentioned entry modes are not reliable for the current case, and there are some reasons for making this statement. The licensing and franchising entry modes are quite similar between them, both entry modes involving a partnership between two companies, the company deciding to internationalize allowing the company from the host country to use the brand, designs, patents etc. However, this entry mode is usually used by companies, which already developed a strong brand and want to enter a foreign market involving fewer responsibilities. As example, the franchising entry mode is often used by fast-food chains, for instance McDonalds, Pizza-Hut, Subway, KFC, hotels or normal restaurants that are already known and they have an extensive knowledge about their products or services.

The third intermediate entry mode discussed in the theoretical chapter, strategic alliance/joint ventures is more related to the current case. A joint venture involves a partnership between two companies where both of the companies have control over the business activities. In the normal situation, the home company, in this case Grupo CMEW, should bring the investments and technologies while the company who internationalize brings the knowledge and experience. This approach can be successful and realizable in the current situation. If Grupo CMEW has decided to invest resources in a foreign country, it will be possible to try finding potential partners that are currently running business on the market and therefore have knowledge about the consumer preferences, distribution networks or market trends and another important aspect, the knowledge about roasting coffee. This can be done with either small size companies or middle size companies who are interested in putting more effort together in order to grow the business. Besides the potential investment, that Grupo CMEW may bring in the new company, there will be also the advantage of supplying green Arabica coffee beans, at least a part of the quantity necessary in the production, from an own production facility.

Finally, the last entry mode that will be discussed is the wholly own mode. When a company decides to set up a wholly own subsidiary in a foreign country it means that an acquisition has to be made or a new company has to be set-up from the basis. Setting up an own production facility in Germany may be very expensive for Grupo CMEW because it will be necessary to invest in buying or renting a place where the production process will take place, acquisition of technological equipment for roasting and packing the coffee beans and also qualified people have to be hired. It is really necessary to hire qualified people that are experienced in the coffee industry from Germany and also people that are experienced in roasting coffee, in order to provide in the end qualitative products and also to know how to act on the market. This human factor aspect could be very costly given that qualified people are usually hard to be found and also the wage level in Germany is quite high. On the other hand, starting a very small-scale testing production, as mentioned in the previous calculations may be of an interest for Brazilian coffee producer.

Additionally, it is possible to use a different strategy to enter the German market with a wholly owned company, method that can be less expensive. Grupo

CMEW can set up a local company in Germany that will be in charge with all the operations except production. The roasting and packing step can be outsourced to other companies. As it was presented before, many companies interviewed by the researchers in Germany were already doing private labeling for some clients and expressed their interest in working with Grupo CMEW.

## Local Marketing

In this part of the analysis chapter the topics related to the marketing strategy that can be applied on the German market will be discussed. The topics included in this part have been identified during the data collection process and the opinion of the participants in the study will be the main source to analyze this marketing tools.

### Certificates

This is a very controversial topic within the coffee decision-making process, which is called certificates. There is variety of certifications within the coffee production as well as variety of opinions in regards with their importance, value or transparency.

The data collection within the German market has proved that it is a controversial theme. There are companies considering them as an important marketing tool but also companies that consider certificates as an expensive, not transparent not even efficient stamp. Kaffeerösterei Konstanz has shared the opinion as following:

*“There are too many different certifications. Basically, every coffee roaster can get any kind of certification but you cannot have all of them because of their price. We have two types of certificates, green coffee and fair-trade but we do not even communicate it with consumers, because we are roasters and after roasting process it is a different output than certificated input. Generally speaking it is not necessary to have certificates within the specialty coffee sector.”* (Appendix 7)

The opinion of the owner of L-Kaffeerösterei was in line with the discussion undertaken with another roasters in Germany:

*“Obviously, customers insist to see the certification, but if you rather explain them everything about your beans, all the history, show the pictures, bags, farms,*

*provide them with all the necessary information, so you build the trust, then the certifications are not necessary. Secondly, talking about hotels and supermarkets, they also want to see certificates, but not having them will not talk them out from the purchase. People buying in supermarkets are more influenced by certificates than those buying in the specialty coffee shops or roasters. Relationship and trust win over the certificates.” (Appendix 8)*

The interviewee from the company Donau Kaffee has confirmed the trend by saying following:

*“Certifications are important in the supermarkets, because there is no one to talk about the product with but customers buying from specialty coffee shop will rather consult the product.”(Appendix 4)*

It is possible to mention the statements from all the interviews, but they all follow the same path. The interview with Ettli Kaffee has brought opinion that those certificates may be even biased.

*“It is also possible to cheat and get certificates. We buy a coffee at the higher than the fair-trade price. I have even heard that the fair-trade price is not necessarily distributed throughout farmers to the individuals that pick the beans. For us, certifications are not important. Customers trust us.” (*

Appendix 6)

It is necessary to conclude what every interview supported. The certifications are useful marketing tool when the product is distributed via supermarkets surrounded by several identical product types, so customer needs to decide based on some indicators. When it comes to the purchase made by customers that show a strong interest in the coffee and already have some knowledge about the product, the certification is not necessary. In this case the most important is the relationship and trust build between the brand and customer. It is necessary to know every piece of information, from the history of the beans up to the roasting process, in order to achieve a closed sale.

Therefore, certification has to be considered as an additional marketing tool that costs a certain price, so the question will always be how rentable they are and how they can boost the sale of a certain product.

## Single served Coffee

Other important point is the fact that the number of households with one or two people is growing as mentioned also during the interview with Donau Kaffee:

*“We are thinking about pads coffee. It is coffee only for individuals. There are more and more places with only one or two people in. So pad market has a potential now.”*(Appendix 4)

Those individuals are usually employed, having no issues with covering their expenses. This also means that there is a need for easy and quick preparation of the high quality coffee. Therefore, the introduction of coffee capsules, or in better scenario high quality hard pods, since they are considered having the best characteristics from the entire single served coffee. In order to support what was written above it is necessary to mention the statement of the owner of coffee roaster Espressone and L-Kaffee Roastei:

*“Pads have been growing longer already and capsules are booming now. Capsules are a problem for the quality roasters. They have to be roasted for a very short time. Basically, they are not so good for your health. Capsules are more for industrial coffee. Yes you can drink it but it is not that good as a real espresso. Coffee consumption grows from year to year.”* (Appendix 5)

*The third coffee wave is dominating right now. The trend goes from darker roast to lighter nowadays. And also filter brewed coffee. Maybe the coffee capsules are coming up but the quality is incomparable, so very poor.* (Appendix 8)

On the other hand, this segment seems to be also the most profitable, as it was mentioned during couple of interviews such as the one with Ettl Kaffee:

*“The most profitable product is the coffee capsule. 1 Kg of coffee sold in Nestle capsules is 80 Euro while 1 Kg of our coffee is 18 Euro.”* (

Appendix 6)

*The same opinion was supported also via interview with Espressone:*

*“Pads and capsules have the highest margin.”* (Appendix 5)

From the marketing point of view, it is necessary to keep the brand's perception by communicating that the company is focusing on quality via producing only whole beans, but it would be tremendously efficient to satisfy needs of some customers who require single served coffee. Simply, there is no need to become popular via producing single served coffee, but the company should be prepared to do it when the demand comes from the side of customer.

### Tracking the Origin of the Coffee

There are plenty of coffee bean types on the coffee market nowadays, produced in different regions around the world like South America, Africa or South-East Asia. This variety is mainly seen on the specialty coffee category where the roasters try to provide the customer with a large portfolio to choose from and also to use this variety while blending the coffee.

One of the issues raised by the researchers and by the manager of Grupo CMEW was regarding the origin of the coffee, more specifically, if the tracking the origin of the coffee influences the consumer's choice nowadays. This issue was investigated during the data collection process, and the participants in the study were asked about their opinion regarding tracking the origin of the coffee and how important is to have a transparent supply chain for the German consumer.

All the participants, who were asked about this topic, stated that tracking the origin of the coffee and showing the customer as many details as possible, regarding how the coffee is harvested, about the region or about the coffee type, is very important nowadays and some of them are using this to differentiate from the competitors. For instance, the owner of Espresso mentioned the following:

*"I say to people where I buy it, how I produce it and I am trying to produce a stamp "my name", so to build a trust is very important. When Starbucks says this, people cannot verify. I have pictures from farms and I share it on social media and so on."* (Appendix 5)

Besides this, the owners of Kaffee Rösterei Konstanz and Donau Kaffee mentioned that it is always useful to communicate towards the customer from

which region the coffee is imported and how the beans are harvested, therefore they train their employees in this area:

Kaffee Rösterei Konstanz: *“Yes, it is perfect if you can provide to the customer how a certain type of coffee was produced, harvested etc.”* (Appendix 7)

Donau Kaffee: *“Yes it is useful. In our shop people can say where they want to coffee from, if they want a mix or not and so on.”*(Appendix 4)

Moreover, the owner of L-Kaffee Rösterei confirmed that from his point of view it is very important for the consumer to get these details nowadays:

*“It is very important for customers nowadays.”* (Appendix 8)

On the other hand, the owner of Ettli Kaffee mentioned that the company is always tracking the coffee origin but given that among the company values are the sustainability and social responsibility; in the future they consider giving some advantages back to the coffee farmers:

*“We usually know the region where the coffee comes from but we are too small at the moment to go and meet every coffee producer. We are considering for the future to bring good things to the coffee farmers. We want to build houses for the children from the poor regions where our coffee comes from.”*

(

Appendix 6)

As it can be seen in the previous included citations from the collected data, tracking the origin of the coffee is not only a good marketing tool but it started to be a must in order to be able to sell the coffee. The participants mentioned that they use the knowledge about the origin of the coffee and also they use this for their marketing campaigns, as it is the case of Espresso who often posts on social media articles with details about the coffee they sell in the shop. Moreover, there is another aspect noticed during the analysis of the data that strengthens the importance of the origin of the coffee. The data collection was based on a semi-structured interview, and the researchers asked the question “What makes the value for the customer?” before the question in regards with how important is to track the origin of the coffee nowadays (Appendix 11). Two of the respondents, the owner of Kaffee Rösterei Konstanz and Donau Kaffee, mentioned that the origin of the coffee

makes also value for the customer before they were asked about this topic separately:

Kaffee Rösterei Konstanz: *“For our customers, the value is made by the quality, which is different from the coffee you can get in the supermarket, and the history of the coffee.”*(Appendix 7)

Donau Kaffee: *“People have enough money here to pay for a specialty coffee. They are strongly interested where from does the coffee come. Who has produced it and how was it produced.”*(Appendix 4)

In conclusion, it can be said that for the German coffee consumer, especially for the consumers of specialty coffee, it is important to “hear a story” about how the coffee has been harvested and about the region where it is coming from. This is an important topic to be used in the communication strategy and marketing campaigns since more and more people are aware and interested about this topic. Having details about the coffee from the shelf it is more than just a marketing tool used to reach the customers and sell the product, this can be as well used to differentiate from the mainstream coffee brands and position as a premium brand.

### Trust & Relationship

Another important factor for the marketing strategy at the German market is definitely relationship and trust. In case of selling the high quality coffee, as mentioned in the previous paragraph, the origin of the coffee plays a crucial role. The origin has to be communicated. During the data collection it was figured out, that certifications might not be as important as the trust between the customer and the company. Simply, the origin of the product is important, but there is a need of a trust to make customer believe in the place of the origin. For instance the owner of the roaster named Espresso answered the question “what makes the value for the customer” as following:

*“Relationship. It is a very honest product produced by hand. We are looking for proper farms, no child labor. We are looking for sustainability. Customer now exactly where does it come from? I talk to people every day. I have pictures from farms and many others prove”* (Appendix 5)

Additionally, the owners of Ettli Kaffe and L-Kaffe Rösterei have also expressed his opinion regarding coffee certificate and coincidentally both of them have mentioned trust and relationship as found below.

*Ettli Kaffe: "Certification is not so important. We usually tell directly or clients that we buy only fair trade coffee and they believe us. We buy coffee for a higher price than the fair trade price" (*

Appendix 6)

*L-Kaffe Rösterei: "Certificates help when you sell to people with lower knowledge of coffee. In supermarket is good to have the certificate. When you have a close relationship with customer, then they do not need it." (Appendix 8)*

As to conclude, it is definitely the fact, that mainly in the field of specialty, meaning high quality coffee beans, relationship and trust plays a crucial role at the stage of the decision-making process of customers in Germany. Therefore, the attention from the side of the company has to be paid to the potential employee, who will be personally in touch with customers in the future and who will be presenting them the characteristics of the product.

## Distribution Channels

Distribution channels have been marked as an important marketing tool that in a smart choice can boost the sales, while on the other hand can also lead to the waste of investments. Distribution channels are different at who the company can reach with the certain channel. There is no point in offering a nice beef stake to the vegetarian.

It has been observed that fair-trades and online channels seem to have a high popularity leading to a high number of closed deals. For instance one of the interviewee mentioned:

*"All of the channels are used. Obviously, online channel is increasing and trade shows help a lot. Online channels are used most by individuals." (Appendix 8)*

Additionally, point of sales, when picked correctly, are useful to present the brand and its quality. The coffee company Espressone has supported all of the mentioned channels, such as online, fair-trades and point of sales, by saying:

*“Fairs are very important to push all the channels. Young people usually buy it in the store. The older generation comes and wants to buy it by person. We are slowly moving to the Internet. It is important to have a shop in order to offer a free coffee and then people experience what they may bring home.” (Appendix 5)*

*Ettli Kaffe: “The most important distribution channel for us is the bakery. We search for the best bakeries that are producing by hand so we are on the same line.” (*

Appendix 6)

As already mentioned, online channels cannot be neglected mainly for the young generation and people coming not from the place of visited store as it was said by coffee roaster located in Konstanz, which is the place full of tourist near the lake Konstanz, which is surrounded by three countries, Germany, Austria and Switzerland.

*“If the customer wants quality, it doesn’t matter if it is bought online or from the shop. For us internet is really important because we have a lot of tourists in the area who try our coffee and then keep ordering it online.” (Appendix 7)*

Donau Kaffee is the one who is selling also via supermarkets and therefore he has highlighted this channel as well: *“The trend is that people would be buying more and more in a specialty places. But also, many people buy a lot in supermarket, due to the time reasons. They do shopping there anyway. In supermarket it is surer that they will buy it. Hotels, cafes buy beans. We also sell online, and every year it is higher and higher. We use the agency to be responsible for all of the communication processes.” (Appendix 4)*

Therefore, when introducing a new coffee product within the German market, it is necessary to prepare a ready e-shop with an interactive webpage full of useful information, as well as at least a small store for the presentation and tasting of the speciality coffee and for the interaction with customers. On the commercial side and to support the network, coffee fair-trades are of the necessity.

Obviously there are more marketing facts that would be worth to include, but the main point of this chapter was to include only information about local marketing that have been discovered during the data collection trip, so the information come from the real business owners actually operating within the coffee

business field in the target market, which is Germany. Therefore, that information are less likely biased or not reliable, so they can be used as the actual facts that need to be paid attention to when starting the internationalization.

## Limitations

Every business research takes place at the certain time, certain place done by and with certain individuals. So far, we see that every individual in the world is different and therefore think and work differently as well. This brings the beauty of variety everywhere around us also to the business environment, which means that it is difficult to find two identical researches, done by different people.

Therefore this work is also not identical with others with similar topic and it brings also certain limitations.

Firstly, business environment especially one investigated is constantly changing. Even though that collected data are considered as reliable, actual and valuable, they might become outdated very quickly. In the coffee consumption characteristics, the third wave is currently on which proves that this part of the business is constantly modified and changed. However, currently until the next significant change, several companies, considering entering the European coffee market, may use this research.

Secondly, this research has taken the place mainly in Germany, which is not the domestic place of any of the authors, which may end up with positive and negative effects. Positive side of this situation is that none of the researcher would have any stereotypes about coffee consumption coming from the past, in other words researchers are looking at the market as it currently is. Negative side of this statement is that they may have missed important information, facts or events happened in this market, mainly due to the lack of the proper knowledge of the local language. So even though the interviews have been conducted also in German language, the entire research's language was English.

Additionally, due to the time limitation of the research process, when arranging the data collection meetings or in other words interviews, researchers have had only couple of days to offer the interviewees a personal interview, which was in many cases crucial when arranging it, so due to this time limitation the meeting was not accepted. Similarly, the fact that Germany is a big country, in some cases even though the roaster was positive with researchers' interview proposal, it was simply impossible to move from place to place due to the long distance.

Fourthly, this research was tailored to the needs of Brazilian coffee producer speaking obviously Portuguese while non of the researchers speak this language, it is possible to mention that without help of the supervisor, who is speaking fluently Portuguese, the interview with the coffee producer would not be possible at all and therefore the research would not be conducted based on the needs of the Brazilian company.

Fifthly, the fact that authors of this project have done a qualitative research (interviews) first time, it has definitely affected the quality of the data collection, as a matter of fact that it was possible to notice that the quality of the interview was increasing from one interview to another.

Sixthly, the data collection trip was possible because of a partial expense coverage received from Aalborg University. However, the researchers had difficulties in performing all the personal interviews planned due the high distances between cities in Germany, which required significant expenses to reach all the companies. Moreover, the research conducted in United Kingdom was limited only to the London Coffee Festival due to the same reason.

Lastly, it was figured out that in case of conducting the research at the different time or in a longer time slot, it would be possible to attend even more coffee fairs as well as to interview more local businesses within the coffee environment, so available time always affect the amount of data collected, but authors believe that they have managed to fit as much as possible in the time available for the data collection.

## Recommendations and Conclusions

The following rows are dedicated to the recommendations based on the previously performed and presented analysis. Several possibilities of entering the European Market have been presented as well as simulated in order to understand pros and cons of each of them.

Firstly, during the country screening process of countries located in the west part of Europe, Germany was pointed out of the others as the country worth most to be entered by a new coffee product of Brazilian Coffee producer, so this is the recommended market. The main criteria used to define the best country to expand the operations were the economic indicators and the size of the coffee market. Germany was by far the winner of the first phase of the screening process receiving 38 points while the second place was shared by Netherlands and United Kingdom with only 30.5 points. Besides this, in the second stage of the country screening, where the coffee market of these countries has been analyzed, the available data for the coffee sales revealed that Germany has the biggest coffee market. The total size of the German retail market is 4 times bigger compared to the Dutch market and 5 times bigger compared to the UK coffee market. Therefore, it is clear to conclude that the highest potential among these countries is on the German market.

Secondly, the investigation of existing value chain of Grupo CMEW as well as potential market entry strategies, led researchers to the recommendation of setting up a wholly owned subsidiary with the main focus on production of fresh high quality roasted whole beans.

Some of the reasons for choosing this entry mode are found in the vision of the company who is the main subject of the research. The company's vision to internationalize is to reposition within the GVC and position as a premium coffee brand on the European Market. Looking at the characteristics of the export modes it

can be seen that the company may enter the foreign country via exporting the product to the country of interest, either to its own sales office or to an agent. If Grupo CMEW uses the export mode it means that they need to either ship the roasted coffee beans, coffee pods or coffee capsules from Brazil to Europe or to ship the green coffee beans but this is not aligned with the vision of the management of the company. The prior analysis revealed that shipping the coffee after it was roasted from Brazil to Germany will influence negatively the quality of the coffee and in this case it will be hard to position as a high quality brand, as well as it can cause quality claims from the clients. On the other hand, if Grupo CMEW will just export the green coffee to Germany the company will not reposition in the GVC, which is not to goal of the company at the moment.

Secondly, franchise, licensing or joint ventures represent the intermediate entry modes. The prior analysis concluded that companies who internationalize via franchise or licensing are companies with rather high capabilities, a high amount of resources, a well-known brand as well as a broad know-how, which is not 100% the case of Grupo CMEW. On the other hand, the analysis did not reveal that a joint venture with a local company is a reliable approach. The participants in the study were more interested in providing Grupo CMEW with the final product, roasted, packed and delivered to their client network rather than continuing the business with a partner. This may be a reason of the fact that the companies interviewed have already established market and their know-how about the coffee roasting process is rather high. In the same time, setting up a joint venture is not the best approach for Grupo CMEW due to the fact that the flexibility of the company will be reduced and the investments can be as well high, given that other company may require investments in order to share with Grupo CMEW the assets and the knowledge about the German market.

Wholly owned subsidiary comes with several advantages. Firstly, when setting up a small-scale testing production and at the same time knowing the demands of the market, will not bring the initial investment as we might have thought. It is a very rentable investment that will pay back within the twelve months. Also during the data collection, it was confirmed that roasting business brings stabilized income, mainly due to the demand and high margin. The potential of

growing and strengthening the position is significant, when employing skilled professionals in roasting as well as sales area.

Authors recommend roasting and selling whole beans due to several reasons. When conducting BCG Matrix, whole beans, coffee pods and coffee capsules have localized best for being a new product at the market. Also when simulating entering a market with different product types, those three coffee products have shown the highest margin as well as competitiveness compared to unroasted beans. Coffee pods and capsules have been categorized during the data collection part of the research the coffee products of lower quality compared to whole beans, therefore whole beans deserve most of the attention. Even though, coffee capsules and pods bring very high margin, it also requires higher investment when setting up wholly owned subsidiary. Additionally, as figured out during the research, local German market requires not only coffee of one type, but rather blends mixing different types and tastes of the coffee. When operating through own subsidiary, the flexibility and fast responsiveness to the changes on the market is on higher level compared to outsourcing activities.

Wholly beans of a high quality with the transparent history roasted or produced locally are recommended as the product with the highest potential to be a successful entry channel for a new brand to the German market.

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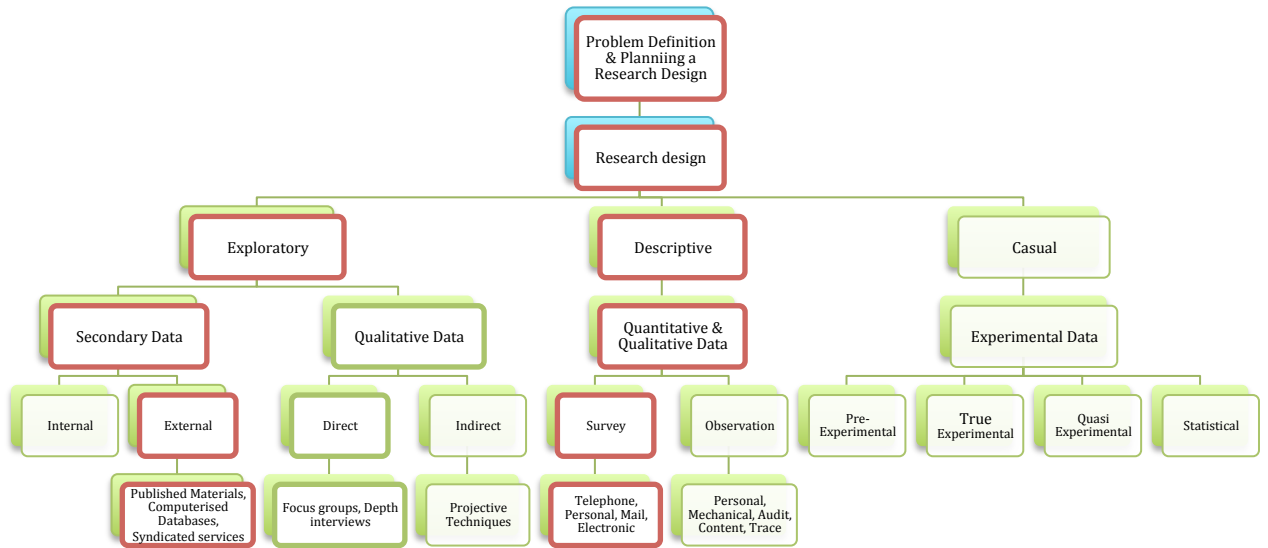
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## Appendix



Appendix 1 Research Designs Overview (Source: own creation based on Sreejesh, Ansurree & Sanjay, 2014)

## Calculation results

Total customs value:	€28010.00
Import duty:	€0.00
Excise:	€21900.00
VAT:	€3493.70
Total import duty & VAT due:	€25393.70
Total landed cost:	€53403.70

[Edit](#)

## Calculation notes

### Notes on duty & taxes rates and compliance

- Coffee Beans is duty free , an excise fee of €2.19 per kg and a has a VAT rate of 7% . Importation of these articles must comply with EU labelling requirements, health and quality standards controlled by the European Food Standard Agency (EFSA). Please contact EFSA for more information. [Some Probability].

### Notes on import taxes due

- Please note that your shipping provider may add an additional [handling fee](#)

## 1 From where to where you import

Importing from:	<b>Brazil</b>
Importing to:	<b>Germany</b>

[Edit](#)

## 2 The type of product, its value and where it was manufactured

Product description:	<b>Coffee Beans</b>
Product category:	<b>Coffee   unroasted</b>
Product value:	<b>€26310.00</b>
Country of manufacture:	<b>Brazil</b>

[Edit](#)

## 3 The cost of shipping and insurance of importing

Shipping costs:	<b>€1500.00</b>
Insurance costs:	<b>€200.00</b>

[Edit](#)

1 From where to where you import		Edit
Importing from:	<b>Brazil</b>	
Importing to:	<b>Germany</b>	
2 The type of product, its value and where it was manufactured		Edit
Product description:	<b>Coffee Beans</b>	
Product category:	<b>Coffee   roasted</b>	
Product value:	<b>US\$28310.00</b>	
Country of manufacture:	<b>Brazil</b>	
3 The cost of shipping and insurance of importing		Edit
Shipping costs:	<b>US\$1500.00</b>	
Insurance costs:	<b>US\$200.00</b>	

Calculation results		Edit
Total customs value:	<b>€26223.66</b>	
Import duty:	<b>€1966.77</b>	
Excise:	<b>€21900.00</b>	
VAT:	<b>€3506.33</b>	
Total import duty & VAT due:	<b>€27373.10</b>	
Total landed cost:	<b>€53596.76</b>	at exchange rate of 1 EUR = 1.14 USD

Calculation notes	
<b>Notes on duty &amp; taxes rates and compliance</b>	
<ul style="list-style-type: none"> <li>Coffee Beans has an import duty rate of 7.5% , an excise fee of €2.19 per kg and a VAT rate of 7% . Importation of these articles must comply with EU labelling requirements, health and quality standards controlled by the European Food Standard Agency (EFSA). Please contact EFSA for more information. [Some Probability].</li> </ul>	
<b>Notes on import taxes due</b>	
<ul style="list-style-type: none"> <li>Please note that your shipping provider may add an additional <a href="#">handling fee</a></li> </ul>	

## Appendix 4: Interview Donau Kaffee

### Company

1. Could you please describe your company? What is the size of the company? What are the core competencies of the company? What are the main product types?

***“We exist for 10 years already. Core competencies are groceries (80% percent) and the rest is coffee and chocolate (20%). We have 23 employees. We import the coffee from different lands, roast and pack. Everything from import to the final product and it is done by hand. We make coffee beans and grained coffee, nothing else.***

***The target is from roasting to graining and sale maximum 10 days.”***

2. What is the volume of coffee processed in one year? What is the amount of the coffee sold in one year?

***“18 000 kg per year but we can do more also. We roast one bag a day (60 kg)”***

### Customer

1. Who is your main customer?

***“We produce mainly for supermarkets (edeka, rewe, metro). We produce only 10 percent for the individuals. (20 Eur per kg) Customers are in radius 200km. Most of the individuals want beans but some of them grained coffee.”***

2. What makes the value for customer?

***“People have enough money here to pay for a specialty coffee. They are strongly interested where from does the coffee come. Who has produced it and how was it produced.”***

3. What do you think about the tracking of the coffee origin? Transparency?

***“Yes it is useful. In our shop people can say where they want to coffee from, if they want a mix or not and so on.”***

4. How important is the certification for you? How important is the certification for your customer? How about the end customer?

***“For the end customers the certificates are important. I think there are too many certificates right now and people do not understand it though.”***

## Market

1. How would you describe the current coffee market? Do you see any trends? Do you see any changes in past years? (i.e., competitors, customers, environment, pricing, promotion, suppliers, employees, etc.)?

***“Everything is very stable. We are thinking about pads coffee, so only for individuals. There are more and more places with only one or two people in, so pad market has a potential now. The problem in Germany is that there are too many brands. So far in 10 years we paid 300 000 Eur for promotion.”***

2. How are the Brazilian coffee beans perceived in European Union or maybe even in the German market?

***“I have no idea. Brazil, Guatemala, Costa Rica are the most popular from the side of customers.”***

## Product

1. What is the most demanded product type?

***“We always have caffee crema and espresso... standard (middle) and then plus one and minus one.”***

2. How about the trends in the distribution channels?

***“The trend is that people would be buying more and more in a specialty places. But also, many people buy a lot in supermarket, due to the time reasons. They do shopping there anyway. In supermarket it is surer that they will buy it. Hotels, cafes buy beans. We also sell online, and every year it is higher and higher. We use the agency to be responsible for all of the communication processes.”***

3. What is your opinion about automatized coffee machines?

***“We do not produce for those kind of machines.”***

## International experience

4. Do you have any experience with importing coffee beans from out of Europe?

***“Inter American Coffee trading center in Hamburg.”***

1. Where do you get your beans? What country do you prefer and why?

***“Guatemala, Brazil, Costa Rica, Ethiopia. Those are mainly asked from the side of customers. We also start working with Uganda now, but we are still not sure.”***

2. Do you have any experience in working with international coffee producers? Would you like to establish a partnership with foreign coffee firms?

***“We roast for one guy in Austria and he does the rest. We do everything from roasting to packing. Everything can be adjusted based on partners’ requirements. Only the problem is that transport is quite expensive so this has to be discussed always. The roasting would cost then 10 eur per kg including taxes, packing, and sale, but without transport. The best would be to establish a logistic center and then to overcome high prices of transport.”***

## **Appendix 5: Interview Espresso**

### Company

1. Could you please describe your company? What is the size of the company? What are the core competencies of the company? What are the main product types?

***“We are a small company, with 14 employees. Mainly we roast coffee and we produce high quality coffee. We are a local coffee company. We operate 100 km radius. We are doing everything about coffee, machines included. We have 3-mil euros turnover per year. 66 percent is generated via coffee. 95 percent of our products are the whole beans then pads, grained coffee and so on.”***

2. What is the volume of coffee processed in one year? What is the amount of the coffee sold in one year?

***“We roast 180 tons per year. Our customers are told that we produce 140tons.”***

### Customer

1. Who is your main customer? Are there any specific customer groups related to certain product type?

***“We sell mainly to the individuals and we earn the most of the money there. We also sell to the supermarket, but very little. We also provide companies with coffee. We sell coffee and machine to offices. You have to pay the full amount. We have a very good customer service.***

***We are also doing private label. We have customers that bring their coffee and we roast it but only good coffee. We charge per Kg 1 Euro, but in Germany you can also roast for 40 cents. We are also able not only to roast but also to pack***

*it, label it and send it to our customers. For long term relationships the price may be negotiable. We also provide different packing options and labeling options.*

*For instance, Wurth is packing their coffee in our company because they wanted a high quality coffee which is related to their values.”*

2. What makes the value for customer?

*“Relationship; It is a very honest product produced by hand. We are looking for proper farms, no child labor. We are looking for sustainability. Customer now exactly where does it come from? I talk to people every day. I have pictures from farms and many others prove.”*

3. What do you think about the tracking of the coffee origin?  
Transparency?

*“I say to people where I buy it how I produce it and I am trying to produce a stamp “my name”. So to build a trust is very important. When starbucks says this, people cannot verify. I take a picture when I go to the roasters and I share it on social media and so on.”*

4. How important is the certification for you? How important is the certification for your customer? How about the end customer?

*“Yes. German people are looking for a stamp. We have the certification from IFS, Fair Trade, Bio. But it does not mean that they would not buy it if you do not have it.”*

## Market

1. How would you describe the current coffee market? Do you see any trends? Do you see any changes in past years? (i.e., competitors, customers, environment, pricing, promotion, suppliers, employees, etc.)?

*“Pads have been growing longer already and capsules are booming now. Capsules are a problem for the quality roasters. They have to be roasted for a very short time. Basically, they are not so good for your health. Capsules are more for industrial coffee. Yes you can drink it but it is not that good as a real espresso.*

*Coffee consumption grows from year to year.”*

2. How are the Brazilian coffee beans perceived in European Union or maybe even in the German market?

*“It is not the most famous coffee. For roasters it is a base coffee for espresso*

*blends. You have also a special Microlot from Antrade, Southvestre Project coffee Sandacasa and those are special coffees from Brazil. “*

### Product

1. What segments are the most profitable nowadays? (grained, beans, capsules, single served...?)  
*“Pads and capsules have the highest margin.”*
2. What is the most demanded product type?  
*“Whole beans.”*
3. How about the trends in the distribution channels?  
*“Fairs are very important to push all the channels. Young people usually buy it in the store. The older generation comes and wants to buy it by person. We are slowly moving to the Internet. It is important to have a shop in order to offer a free coffee and then people experience what they may bring home.”*
4. What is your opinion about automatized coffee machines?  
*“Yes, it is a good business. It is very easy for us and customers as well. We deliver our machines for companies with no costs and people pay for the coffee.”*

### International experience

1. Do you have any experience with importing coffee beans from out of Europe?  
*“We are buying the coffee from trading companies located in Hamburg but we also have direct contact with the coffee farmers. The responsibility with importing is on the coffee traders that we work with.  
We buy coffee only once a year (September-October).“*
2. Where do you get your beans? How does the country of origin affect your purchase decisions and your customers' purchase decisions?  
*“Most of the coffee we roast comes from Brazil, Nicaragua, India, Colombia and Mexico.  
Coffee coming from Columbia, Nicaragua, Guatemala, and Honduras are the most famous in Germany.”*

## Appendix 6: Interview Ettli Kaffee

### Company

1. Could you please describe your company? What is the size of the company? What are the core competencies of the company? What are the main product types?  
***“Our company is a family own coffee roaster. We sell coffee, tea, spices, coffee machines for family use or professional use or cups.  
At the moment we have around 70 employees both full time and part time employees. The coffee business represents around 50% of the turnover.”***
2. What is the volume of coffee processed in one year?  
***“We roast about 260 tons a year but we lose around 40 tons every year.”***

### Customer

1. Who is your main customer? Are there any specific customer groups related to certain product type?  
***“We do not have a typical client. We usually have clients who want a high quality coffee at a good price.  
We sell to the best hotels in the Baden Württemberg region with 4-5 stars, good restaurants and some hospitals. We deliver them coffee beans or we use our coffee in vending machines.  
We also sell online and in our own shops to end customers but we do not focus specifically on the internet. Many customers prefer to come to the shops and spend more time because they buy a product with a high quality that basically needs more attention.”***
2. What makes the value for customer?  
***“Our clients get a good quality at a good price.”***
3. What do you think about the tracking of the coffee origin? Transparency?  
***“We usually know the region where the coffee comes from but we are too small at the moment to go and meet every coffee producer. We are considering for the future to bring good things to the coffee farmers. We want to build houses for the children from the poor regions where our coffee comes from.”***
4. How important is the certification for you? How important is the certification for your customer? How about the end customer?  
***“Certification is not so important. We usually tell directly or clients that we buy***

*only fair trade coffee and they believe us. We buy coffee for a higher price than the fair trade price.*

*It is also possible to cheat and get different certifications and I also read some articles saying that sometimes only the farmers get more money from the fair trade, not the people who pick the beans.”*

## Market

1. How would you describe the current coffee market? Do you see any trends? Do you see any changes in past years? (i.e., competitors, customers, environment, pricing, promotion, suppliers, employees, etc.)?

*“During the last decade the trend was to a higher consumption of coffee with milk, Caffee Macchiato. Moreover, the trend shows that people are drinking coffee of lower quality compared with 10 years ago. This is because big companies put everything in their coffee when they grind the beans like the skin of the bean.”*

2. How are the Brazilian coffee beans perceived in European Union or maybe even in the German market?

*“I like the Brazilian coffee but only the high quality coffee because the coffee produced in Brazil varies from low quality coffee to high quality coffee. My favorite coffee from Brazil comes from the Minas region.*

*I have different favorite countries from where I buy coffee beans. For instance, I use the Robusta coffee produced in India because is the best in the world; on the other hand, the big roasters use Robusta beans from Vietnam.*

*It is hard to say that a coffee produced in a certain country is better than a coffee produced in other country because in almost every country you can find low and high quality beans. For instance, in Costa Rica and Kenya you find coffee which is a bit sour while in Guatemala, Colombia and Brazil the coffee medium sour.”*

## Product

1. What segments are the most profitable nowadays? (grained, beans, capsules, single served...?)

*“The most profitable product is the coffee capsule. 1 Kg of coffee sold in Nestle capsules is 80 Euro while 1 Kg of our coffee is 18 Euro.”*

2. What is the most demanded product type?

*“The coffee beans for espresso is the most demanded product by our*

**customers.”**

3. How about the trends in the distribution channels?  
***“The most important distribution channel for us are the bakeries. We search for the best bakeries that are producing by hand so we are on the same line.”***
4. What is your opinion about automatized coffee machines?  
***“We use our coffee in vending machine but you need to know the machine very good in order to provide a good quality.”***

### International experience

1. Do you have any experience with importing coffee beans from out of Europe?  
***“We are buying the coffee from coffee traders. (Inter American)”***
2. Where do you get your beans? What country do you prefer and why?  
***“We have mostly Brazilian and Columbian coffee but also from Costa Rica Kenya or Ethiopia.”***
3. Do you have any experience in working with international coffee producers?  
***“No, we do not have direct experience.”***

## **Appendix 7: Interview Kaffee Rosterei Konstanz**

### Company

1. Could you please describe your company? What is the size of the company? What are the core competencies of the company? What are the main product types?  
***“The company was established in 2002 as a small roaster and a coffee shop. At the beginning we started with a 5 Kg roaster and after one month we have changed to a 12 Kg roaster. Later, in 2006 we changed to a 25Kg roaster and changed the coffee shop to a different concept. In our shop we just have a small bar where people can serve coffee and the rest is for displaying the products and for the roasting machine. The company has at the moment 9 employees.***  
***We are also organizing roasting trainings for the people interested in opening a coffee roaster.***  
***Mainly we are packing whole beans but if the customer wants we grain it for***

*them.”*

2. What is the volume of coffee processed in one year?  
*“Last year we roasted around 50-60 tons of green beans and our aim for the future is to reach a production level of around 200 tons, or at least to double the current production. In order to reach this goal we are going to change the current roaster with a new one which has a capacity of 60 kg.”*

### Customer

1. Who is your main customer?  
*“We usually sell to individuals, both in our shop and on the web-shop, and to bakeries who sell coffee.”*
2. What makes the value for customer?  
*“For our customers, the value is made by the quality, which is different from the coffee you can get in the supermarket, and the history of the coffee.”*
3. What do you think about the tracking of the coffee origin? Transparency?  
*“Yes, it is perfect if you can provide to the customer how a certain type of coffee was produced, harvested etc.”*
4. How important is the certification for you?  
*“There are too many certifications. Basically, every coffee roaster can get any certification but you cannot have all of them because is expensive. We have two types of green coffee which is fair trade but we do not tell it because we roast it so is a different coffee in the end. If you have high quality it is not really necessary to have certifications.”*

### Market

1. How would you describe the current coffee market? Do you see any trends? Do you see any changes in past years?  
*“The market has changed during the last years. More and more people become interested in where to coffee comes from and the story behind to coffee. It is not anymore just brown water that keeps you awake.”*
2. How are the Brazilian coffee beans perceived in European Union or maybe even in the German market? What do you think is the best place to offer South American or Brazilian coffee products?

***“Brazil is definitely the biggest producer and exporter, having wide range of varieties. The quality is not so high, is mainly for the industrial type of coffee. In other words, it is the cheap version of a high quality coffee.***

***We have some coffee from Bahia region, and from Maratiera which is a big coffee farmer in Brazil. Maratiera has a good presentation of how they prepare it; pick it and what they test at the coffee. I like the coffee from Brazil but I think sometimes is too less body.***

***My favorite coffee is coming from Colombia, maybe because I was there last year, Honduras and I also like the Arabica coffee from Java, Indonesia.”***

### Product

1. How about the trends in the distribution channels?  
***“If the customer wants quality, it doesn`t matter if it is bought online or from the shop. For us internet is really important because we have a lot of tourists in the area who try our coffee and then keep ordering it online.”***
2. What is your opinion about automatized coffee machines?  
***“We are not interested in this type of machines at the moment.”***
3. What do you think about capsules?  
***“I think it is a market but is really small one, 5% of the whole coffee market. I heard that is the same size as the specialty coffee market in Germany. The quality is also different, for instance I think Nespresso use everything in the capsule in order to get more quantity. The taste is quite good but the quality of the coffee is quite low.***  
***It happens that people buy a capsule coffee machine and later notice that the coffee is not so good and the products are not environmental friendly and as long as they learn more about coffee they change to a proper espresso coffee machine.”***

### International experience

1. Do you have any experience with importing coffee beans from out of Europe?  
***“Direct trading is very complicated because you have to know the people who produce the coffee, you have to know how they ship it to the harbor, you need insurance for the transport, and it is really expensive. In my opinion the easy way to direct trading is to know the coffee farmer, in Brazil for instance, you tell him which types of beans you need, than you have an exporter who is***

*arranging the transport.”*

2. Where do you get your beans?  
*“We are getting the green coffee beans from coffee traders specialized for the specialty coffee market.”*
  
3. Do you have any experience in working with international coffee producers?  
*“Currently we are not roasting for other companies or doing private label products. We can do it but we are quite small and too expensive. When we will buy the new roasting machine we will have enough capacity and the costs will decrease. Some companies asked us to roast for them but the price of 3-4 Euros per Kg was too high, they had offers for about 1.15 Euros per Kg.”*

## **Appendix 8: Interview L-Kaffee Rosterei**

### Company

1. Could you please describe your company? What is the size of the company? What are the core competencies of the company? What are the main product types?  
*“The company was established 5 years ago, starting as a coffee shop in Baden-Baden in order to get the popularity and after 4 years he sold the shop and opened the roaster. The main products are only beans and grained coffee.”*
  
2. What is the volume of coffee processed in one year?  
*“I do not have any limits in the capacity of roasting. In one hour 30 kilos. Commercial coffee is roasting shorter, only for one minute and it decrease a quality.”*

### Customer

1. Who is your main customer?  
*“Main customers are hotels, restaurants and cafeterias, recently also supermarkets. Mainly in the local area but minority is located also further. Also to end users, which is on Friday.”*
  
2. What makes the value for customer?  
*“There is always more and more customers and everyone needs something else. There are two groups. High-end customers (individuals) want the best (direct trade, fair trade, bio etc. (1 kg 29 EUR) Gastronomy sector requires little*

*lower due to the price, it is a special mix. They need a higher quantity and therefore the quality needs to be slightly reduced. (1 kg 21 EUR)”*

3. What do you think about the tracking of the coffee origin? Transparency?  
*“It is very important for customers nowadays.”*
  
4. How important is the certification for you? How important is the certification for your customer? How about the end customer?  
*“People want to see it and would like to see certificates. They ask for it, but as long as he explains everything, and they trust him, he shows the bags, explains pictures and so on, try the coffee and then people trust and do not care anymore about certificates. Also hotels and supermarkets ask for certificates but is not important that much that they would not buy products in case of absence of certificates. It is very important to have information everywhere. Certificates help when you sell to people with lower knowledge of coffee. In supermarket is good to have the certificate. When you have a close relationship with customer, then they do not need it.”*

### Market

1. How would you describe the current coffee market? Do you see any trends? Do you see any changes in past years?  
*“The third coffee wave is dominating right now. The trend goes from darker roast to lighter nowadays. And also filter brewed coffee. Maybe the coffee capsules are coming up but the quality is incomparable, so very poor.”*
  
2. How are the Brazilian coffee beans perceived in European Union or maybe even in the German market?  
*“I have already experienced everything. Coffee of a high quality as well as coffee of a lower quality from Brazil. Most of the coffee quality from Brazil is for mass market. But in general is an average or a high quality. The worst quality comes from Vietnam.”*

### Product

1. What segments are the most profitable nowadays? (grained, beans, capsules, single served...?  
*“The most profitable is the segment of coffee beans.”*
  
2. How about the trends in the distribution channels?

***“All of the channels are used. Obviously, online channel is increasing and trade shows help a lot. Online channels are used most by individuals.”***

### International experience

1. Do you have any experience with importing coffee beans from out of Europe?  
***“I am importing through the organization of coffee roasters, since then it is easier to import in smaller quantities.”***
2. Where do you get your beans?  
***“Right now I prefer India, because I have the best contacts there.”***
3. Do you have any experience in working with international coffee producers? In other words partnering with coffee beans producers?  
***“Now the project of “Roasting for Uganda farmers and distributing for them within Germany” is on. So I roast it, pack it and I send it to his customers within Germany under his brand.”***
4. What does it require to move within Coffee Global Value Chain? Money, Network?  
***“Network is definitely important; usually it is build over the years.”***
5. Would you be able to roast for a company and produce under the their name?  
***“No problem. All the costs have to be included. It includes everything from roasting till packing. Price cannot be estimated right now but we should send an email and calculate it.”***

### **Appendix 9: Interview Grupo CMEW**

1. When was the company founded?  
***“Grupo” started as a family business at the beginning of 1900. The family moved from Italy to the south of Minas Gerais. Afterwards, the family moved to the Paraná. The final destination was again Minas Gerais, more precisely Patrocínio. Until the year 2010, the main focus of the business was the production of coffee as a commodity, as green beans. From the beginning of 2010, they identified the need of introducing a product farther within the GVC, so not only green beans but processed coffee. It was the third generation of the family, which started showing an interest in this “new” field of business and 2013 established the new company.”***

2. What are the core competencies of the company at the moment?

*“Currently, the main focus of the company is still the agricultural business, in other words commodity production. This year it will be approximately 10 000 bags and the following year approximately 14 000 bags (840 tons of coffee). The value adding or coffee processing is still a very small part of the revenue compared to green beans business, with around 95% for commodity production and 5% for coffee roasting when it comes to revenue.*

*In order to process the coffee beans the company outsources most of the steps in the coffee value chain. Produced green beans are transported to another company in order to classify them and pack them based on the classification. Afterwards, beans meet with another player within the chain, which is in charge with roasting.*

*The company Grupo has actually enough resources in order to set up a roaster, but at the moment the demand is not high enough for doing so.”*

3. Who is your target customer?

*“At the moment, the company is selling just bags of coffee without any particular packaging to offices, where to coffee is finalized and consumed.*

*They have started the dialog with the governmental institution “Cibrai” where they are trying to identify the target customer. He is also in a dialogue with a potential customer that would create a new brand in Macapá on the north of Brazil. Grupo is in the middle of the region that represents the biggest production of coffee in the world. Secondly, the owner of Grupo is also a president of the coffee producers organization, which gives him a huge advantage based on the network developed by holding this position. Grupo’s production is 840 tons of coffee a year, whereas the production of all representatives within the coffee producers organization produce around 8400 tons of coffee yearly. If the concept of the successful production is developed for Grupo, the other companies within the organization may be taken into account as well. Grupo would like to preferably position itself in the high-quality coffee market.*

*The other coffee producers within organization so far do not show any interest in entering the coffee processing business.”*

4. How many employees does the company have at the moment?

*“Due to the fact that all of the processes in order to process the coffee the total number is 0. On the other hand in the commodity production (farming) there is a total of 10 employees.”*

5. What is your exporting experience?  
*“Transporting through Franch Guinea to France means that the taxation is way lower. He would like to do value adding or part of it in Brazil. And part in Europe.”*

6. In your opinion, what are the company`s strengths and weaknesses?  
*“Weaknesses - small company, new company, not traditional in Brasil, limited know how, no known brand, 95 percent of coffee producers do not do coffee processing, due to the newness of the company there is a lack of logistics, maybe it is necessary to open new company in EU in order to take care of logistics”*

7. Can you imagine setting up the roaster in EU?  
*“It would depend on the costs of it. Even though you reduce taxes maybe the production will be still cheaper so it is still worth it to do it in Brazil. It would be a matter of proposed partnerships. It will all depend on the costs.”*

8. Does transportation affect the quality of coffee?

*“It depends on the type of product. The logistics in Brazil does not work that good as in Europe. You need to be one step ahead of everything. So green beans would not be affected. But roasted beans would possibly get humidity. So in order to keep it safe the packaging has to be improved which would increase the costs of transportation again. Nowadays, the trend is to produce in India and China but he would not mind to produce in Europe due to the logistics factor.”*

9. What are the certifications that company posses?  
*“Rainforest”. Mr. Marcio does not think that it is beneficial to have more. He meets the standards anyway.*

10. We have seen on your website that all of your products contain 100% of Arabica. The question is, are you able to produce Robusta as well or not?  
*“Grupo CMEW can produce only Arabica because of the climatic conditions in the region where is located. The closest place to CMEW, where Robusta is grown in Brazil is in Espiritus Santos, which is about 1000 KM away. The company is aware of the increasing demand of Robusta and it is possible to create partnerships with some companies in the Espiritus Santos in order to diversify the product portfolio with Robusta coffee. It is necessary to find more than one supplier that also has to be reliable in order to have a “uniform” supply. This process may take some time.*

***The taste cannot be discussed but in fact the quality of Robusta is lower than Arabica. However, some people do prefer the taste of the Robusta coffee.”***

11. The product portfolio found on your website is the complete portfolio or not?

***“The company has many other products than the ones shown on the official website. One of the products that are of great interest at the moment are the coffee capsules. There are currently performed some quality tests in Brazil and Portugal of the capsules and the sachets produced now by Grupo CMEW. One of the objectives during the last period was to expand the product portfolio; this was too much for the Brazilian market so now the company is selling two different types of roasted beans and one type of ground coffee.”***

Interviewer: Who is buying these products?

***“Grupo CMEW is selling or lending coffee machines to different companies and supply them with the coffee necessary for the brewing process. The company is actually giving an incentive, to provide the machine for the client, and then sell its own products. At the moment it is considered a partnership with a supermarket chain in Belo Horizonte to supply these products which should be sold under the brand of the supermarket, but the problem at the moment for these kind of products, with value added features, is that maybe some of the clients are interested in doing this on their own. One company doing something similar is the supermarket chain Migros from Switzerland which is selling capsules under their own brand.”***

12. Are you exporting any product right now?

***“No, we do not export at the moment.”***

13. What is your share of the retail price?

***“For the agricultural product the margin is 30%. Extra margin of 30% is added with every step of the process until it reaches the final consumer. So if the company is also roasting the coffee the margin increases and so on. The company is also interested in working with the high class coffee market in order to gain a higher share but at the moment this segment on the Brazilian market is small. On the other hand, for the “high mass” markets usually the margin that CMEW can get is about 10%. So the strategy is to position in a high quality market in order to gain a better margin.”***

14. How do you compare your company with your competition?

***“The company is not interested in the very high class, just in the middle class because Grupo CMEW will have to compete with companies like Illy or Nespresso on this market. At the moment the company is still in the process of defining the target. In terms of quality we are interested in finding the segment where we can have a higher margin. It is important to find the market where the Groupo can be competitive. We hope that the current research will help finding the most appropriate market for Grupo CMEW. It is possible to position on the low quality market, medium quality as well as high quality but the question is which one is the most attractive and which product is the most complete from our portfolio? Which product is the most competitive?”***

15. Are you aware of any direct competitors who are selling products under their own brand in Europe?

***“Considering the Brazilian companies producing coffee beans, and doing the industrialization process under its own brand, there might be none selling to Europe or maybe few. “***

16. What are the reasons to expand or internationalize?

***“The main reasons are to strengthen the brand, raise awareness of a brand as well as increase and stabilize demand.***

***Therefore there is a need to identify the demand and the way to attract the target audience. Exchange rate is still supporting the internationalization as well. The product is relatively cheaper in EU.”***

17. What are the barriers to enter the EU?

***“One of the main entry barriers is the local marketing. Also the market is not well researched by the producer therefore he has a lack of knowledge which type of coffee products to offer, which needs to be investigated. Therefore, the definition of the product is the first issue.”***

18. What are the trends on the coffee market right now?

***“First example would be the raise of the importance of social responsible products or features of the product in Europe. In Brazil the market is still driven by the price, in other words customer seeks the cheapest product.***

***Social responsibility- In Brazil, price driven market, people want to buy as cheap as possible product.”***

## Appendix 10: Interview DR Wakefield

1. Can you please tell us more about the procedures that have to be followed in order to supply you with coffee?  
*“First of all we have to have an introduction with the coffee produce, it can be either on Skype or phone call. Secondly, the company has to deliver us samples with the coffee beans they produce. Thirdly, we will perform some tests in order to grade the country and based on this to find the proper market for the product.  
It will be useful to have information about the coffee.”*
2. What are the responsibilities of the coffee producer if a partnership will be settled up?  
*“Later, if collaboration will be established, the responsibility of the producer is to deliver the green coffee beans to the harbor and arrange all the paper work. Once the coffee is on the ship, the responsibility is on our company.”*
3. What is the shipping cost from Brazil to Europe?  
*“Usually, the transport price for a 20’ container from Brazil to Europe is around 1200\$.”*

## Appendix 11: Interview Structure

### Company

4. Could you please describe your company? What is the size of the company? What are the core competencies of the company? What are the main product types?
5. What is the volume of coffee processed in one year? What is the amount of the coffee sold in one year?

### Customer

1. Who is your main customer? Are there any specific customer groups related to certain product type?
2. What makes the value for customer?
3. What do you think about the tracking of the coffee origin? Transparency?

4. How important is the certification for you? How important is the certification for your customer? How about the end customer?

### Market

1. How would you describe the current coffee market? Do you see any trends? Do you see any changes in past years? (i.e., competitors, customers, environment, pricing, promotion, suppliers, employees, etc.)?
2. How are the Brazilian coffee beans perceived in European Union or maybe even in the German market? What do you think is the best place to offer South American or Brazilian coffee products? What is the best place to offer such a coffee (on trade/ off trade)

### Product

1. What segments are the most profitable nowadays? (grained, beans, capsules, single served...?)
2. What is the most demanded product type?
3. How about the trends in the distribution channels?
4. What is your opinion about automatized coffee machines?

### International experience

1. Do you have any experience with importing coffee beans from out of Europe?
2. Where do you get your beans? What country do you prefer and why? How does the country of origin affect your purchase decisions and your customers' purchase decisions?
3. Do you have any experience in working with international coffee producers? In other words partnering with coffee beans producers? Would you like to establish a partnership with foreign coffee firms?
4. What does it require to move within Coffee Global Value Chain? Money, Network?
5. What is your focus within Global Value Chain? What part of Global Value Chain makes the most profit