
Andrea Illy: The man behind a good cup of coffee



By Jayne Brocklehurst

It's twice the price of store brand coffee, but aficionados happily pay it. What makes a niche brand of coffee so sustainable? INSEAD Knowledge meets CEO of illycaffè, Andrea Illy, to find out more about this business model with a difference.

The business model for illycaffè (commonly known as illy) is breathtakingly simple – produce the best coffee IN the world and sell it TO the world. “One brand, one taste.” This vision hasn’t changed since Andrea Illy’s grandfather fled his native Austria-Hungary at the onset of World War I, and ended up founding the eponymous coffee company when he settled in Trieste, Italy.

The illy passion for coffee continues today unabated. Coffee simply runs in Illy’s blood. His delight in explaining the three-step process of producing coffee undoubtedly relates to his original professional background as a chemist. “If you talk about quality in coffee, you’re talking about a very complex product,” He goes on to describe step one. “Here, you have all the agronomical aspects, very much like wine. The ecological niche of the terroir also plays an important role, so the very first step requires a very good grasp of biology and agronomy.”

The terroir that Illy speaks of is found in Brazil, Central America, India and Africa through illy-fostered partnerships. These partnerships are based on the mutual creation of value, with illy buying directly from growers that they train and educate and to whom they offer above-market prices. Attentive to every step of the coffee process, Illy shuns robusta coffee beans and insists on buying 100 percent Arabica beans. “The very first priority is to be able to source the high quality beans we are looking for,” he explains.

Illy’s second step is the industrial process. That is to say, the roasting of the beans. The 200 aroma precursors found in the green beans are increased five-fold during the roasting process to eventually finish with more than 1000 coffee flavours. This is where the secret illy aroma comes from.

Finally, the third step is preparation. “We are talking about a transformational product which needs to be brewed or percolated and this adds 50 percent to the final quality in the cup,” explains Illy. Illy is so focussed on producing coffee “their way” that they will also sell you the machines to make it at home. “We design and manufacture our own machines in order to optimise the hardware to get the best end product in the cup. So at each step of the production process we have our own proprietary process.”

Illy remains focussed on the coffee and their expansion plans do not extend into unrelated fields. No key chains or sportswear are on the corporate drawing boards for the moment. Their one and only partnership furthers the corporate aim of putting a coffee drink into your hand - the only difference being that it’s a product designed to be drunk on the go... this time in stylish premium cans. Illy joined up with Coca Cola three years ago to produce ready-to-drink (RTD) products under the brand name of illy issimo. Illy explains, “This partnership is very interesting from two standpoints because this product not only creates a new occasion to consume our coffee - one that is mainly “on the go”, but it also means that illy will be able to intercept younger consumers.”

In addition to younger customers, illy is also looking farther afield. Currently Italy accounts for 50 percent of the company’s almost 300 million Euros annual revenues, with the rest of the world, the remaining 50 percent.... and this figure is still growing. “The company’s international expansion only began some 20 years ago and today the brand is already sold in 140 countries.” This gives illy a broad horizon for further expansion opportunities.

“Growth opportunities exist firstly in the emerging countries such as Asia, South America, China, India and Russia,” says Illy. “The other growth opportunity is in the gourmet coffee market.” These are customers who are described by Illy as “Coffee connoisseurs, coffee lovers.... all people who take pleasure in and have a love for beauty and quality.”

Illy is not alone in its quest for new frontiers. The four multinational conglomerates that buy nearly half the world’s coffee, namely Procter and Gamble, Nestlé, Kraft and Sara Lee are already there. Illy believes, however, that they are not competing for the same market. “We are definitely in a niche market. The marketers used to say until ten years ago, either you differentiate or you die. Now, you are unique or you die.”

Being “unique” is a valuable commodity - often sought after by multinationals looking for something new. Hasn’t anyone offered a cheque for the company? “They try all the time,” he says. “We are not for sale and everyone knows that.”

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