

# Illycaffè Sustainability Business Model\*

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## Abstract

*Through the commitment to promoting sustainability and the actions it consists of, illycaffè intends to promote the development of positive behavior models and of a culture oriented towards understanding the real needs of the communities the company works with, helping them growing and making use of the technical and professional experience illy has acquired in eighty-five years. Illycaffè has pursued a sustainable business model that generates competitive advantages for the company by combining economic and financial targets with social and environmental goals. The main driver of illy's approach to doing business is the creation of value for all of the stakeholders involved, along the entire length of the supply chain. The pursuit of sustainable quality is illycaffè's guiding principle: it is expressed through passion for excellence - meaning love for what is beautiful and well-made - and through ethics - meaning building long term value through sustainability, transparency and human development -and it generates value by promoting social growth while respecting the environment.*

**Keyword:** Sustainable Business Model; Coffee Market; Value Creation; Stakeholders

## 1. The Philosophy of illycaffè

For illycaffè, sustainability is important for two reasons, one being economic and the other ethical. The economic one is based on the supply chain, leading to offer the best coffee to the world and corresponding to the company mission. Coffee is produced by farmers in developing countries all around the world's subtropical belt, mostly in the Southern hemisphere. These farmers have to be able to do so with time and over the time: *with time* as they must have time to learn to achieve standards of quality higher than those generally accepted by the market; *over time* as they should be able to continue, potentially forever, to provide us with this high quality coffee.

Being able to ensure an economic and productive activity over time is the axiom of sustainability. The second reason - the ethical one, lies at the core of illycaffè values: as we mentioned, ethics consists in building long-term value by means of transparency, sustainability and enhancement of all the stakeholders interests, and therefore of the people who work with illy company at all levels. That's why illy is a *stakeholder company*. These stakeholders are very clearly identified and listed: the

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top ones are the consumers, for whom the company exists and whose satisfaction is the company's fundamental purpose. Immediately after are those customers who are also partners in offering the global consumers the best coffee nature can provide. They are followed by the company employees (the 'talents'), without whom illy wouldn't have neither product, nor loyal customers, nor enthusiastic consumers. Immediately following are the suppliers, who provide with the raw material for a super premium product– and the communities of which all these actors are part. Finally, and only at the bottom, we find the shareholders, who are in fact at the service of the company itself and of all its stakeholders

For all of these six categories of stakeholders the company pursues the so-called *triple bottom line*, consisting in economic, social and environmental sustainability. Economic sustainability, which possibly lies at the origin of the other two, is pursued by a strategy of shared value: in this paradigm profit becomes a mean - and not the aim - to generate resources, allowing the company to thrive, to reinvest and share its profit and its enterprise value with its stakeholders. Social sustainability is pursued through a strategy of growth - first of all individual growth: we live in a society where more and more basic needs are met and increasingly people aim at self-fulfillment in terms of socio-economic development. Culture is at the heart of this social sustainability, where illy is particularly active with several local programs within the coffee communities, especially through its University of Coffee and the Ernesto Illy Foundation. Last but not least, environmental sustainability, which is pursued through a very simple strategy of respect for the environment, mainly consisting in not polluting, secondly in reducing waste, and thirdly in using renewable resources as much as possible. Thanks to this triple bottom line, illy completely adheres to the United Nation's basic but complete definition of sustainability - which consists in satisfying our own needs without compromising the ability of future generations to satisfy theirs.

**Figure 1:** *Illycaffè's Stakeholder Hierarchy*



## 2. Sustainability Governance

Illycaffè has implemented a clear strategy specific mechanisms for its sustainability governance and has broad governance and monitoring systems in place to ensure the sustainable development of its business in accordance with both the laws and a pursued economic-social-environmental harmony. This requires transparency in word and deed: fairness in management, compliance with regulations, protection of the rights and interests of shareholders and all stakeholders, and responsible behavior in all functional areas.

As sustainability is an integral part of the corporate vision and business strategy, the company recently has further strengthened the governance and control mechanisms by establishing a Sustainability Committee within the Board of Directors and an operative cross-functional Working Group coordinated by the Director of Corporate Reputation & Sustainability.

The Director of Corporate Reputation & Sustainability refers to the Committee regarding all sustainability matters, presenting global scenario, initiatives, tools, systems and policies developed by illycaffè in the field of responsible management.

The Sustainability Committee, composed of 3 Board members – 2 of which are non-executive and independent – is responsible of supervising all relevant sustainability issues for illycaffè, including the Sustainability Operational Plan, the full integration of sustainability programs in the corporate strategic plan, relations with institutions and communities in coffee-producing countries with regards to sustainable agriculture and investments in the local community, the drafting of the Sustainable Value Report, the Responsible Supply Chain Process certification, and various feasibility studies to reduce the environmental impact and improve the energy efficiency of the productive facilities. This Committee supports also the Board of Directors with preliminary functions - both propositional and advisory - and all evaluations and decisions concerning sustainability.

The relevant activities in terms of sustainability are monitored and carried out by the Sustainability Working Group. This Group analyzes and updates periodically the Sustainability Operational Plan - linked with the Multi-year Strategic Plan – consistently updating it in relation to the current sustainability issues.

The Director of Corporate Reputation & Sustainability serves as illycaffè's corporate spokesperson for sustainability issues on a global scale, supervises sustainability related communication programs and issues management, facilitates and coordinates relations with corporate stakeholders. She periodically reports to the Sustainability Committee, and, when asked, to the whole Board of Directors on the activities, tools and management systems developed for the practice of responsible management.

The approach that illycaffè has adopted for some time now allows it to make management choices that are sustainable from an economic, social, and environmental point of view: thanks to an appropriate monitoring and risk management system which takes into account both traditional corporate risk and risks concerning sustainability and reputation, it is able to limit related costs and thus produces more added value for all stakeholders.

## **2.1 Sustainability Operational Plan**

In 2016, illycaffè decided to update and develop a new "Sustainability Plan", in keeping with its values, with its industrial strategy and with its management systems to focus on its commitment and trends in sustainability in an increasingly better way. The document illustrates the general guidelines and it is being used as a base for a further analysis via a specific "Sustainability Operational Plan", constantly updated and listing in details the actions and objectives that illycaffè intends to achieve in the medium to long term: defining real planning, roles and responsibilities for the areas involved, quantitative targets, and relative performance indicators. The Sustainability Operational Plan is therefore a planning and control tool to support the management and the board for monitoring responsible management.

## **3. Sustainability Strategy**

In order to ensure a better share of its sustainability strategy with all the stakeholders, the company formulated the Sustainability Policy which, together with the Code of Ethics, forms illycaffè's core commitment within the framework of responsible business management in the three main areas of sustainability. For illy, the guiding principle in doing business is value creation at all levels of the supply chain, constantly striving for improvement: the corporate social responsibility model illy has been developing for years includes environmental management systems, energy efficiency, research, innovation, shared responsibility, traceable raw materials and support to local communities - all of this based on a long term vision.

Illy's value chain is based on three fundamental principles: selecting and working with the best Arabica producers in the world, those capable of satisfying illy's requirements; through illy's University of Coffee, sharing with them the knowledge of the best agronomical practices to obtain high quality production, while respecting and protecting the environment; recognizing the highest quality through a premium price nurturing continuous improvement and sustainable production.

### **3.1 Sustainability Policy**

The Sustainability Policy has the scope to provide a representation of illycaffè sustainability values, objectives, commitments and governance. It is applied, in harmony with the current legal regulations, in all countries and territories where illycaffè operates. It permeates the company culture, relying on the principles clearly defined in the Code of Ethical Conduct and in the other company policies. The approach used by illycaffè to draft its Sustainability Policy 2030 is the following:

COMMITMENT	OBJECTIVE
Responsible Supply Chain & Sustainable Agriculture	<ul style="list-style-type: none"> <li>• Constantly improving knowledge &amp; analysis of the impacts throughout the value chain, guaranteeing the highest possible traceability</li> <li>• Contributing to the value chain sustainable development through research, knowledge transfer and field projects</li> <li>• Promoting integrated agriculture to preserve and improve coffee sustainable quality worldwide</li> </ul>
Happiness, Wellbeing & Quality of Life	<ul style="list-style-type: none"> <li>• Fostering and disseminating sustainability principles &amp; culture, together with its intrinsic link with human happiness &amp; wellbeing</li> <li>• Actively participating to the international debate on happiness, wellbeing and quality of life improvement</li> <li>• Promoting global sustainability partnership</li> </ul>
Circular Economy & Innovation	<ul style="list-style-type: none"> <li>• Designing products &amp; systems consistent with the sustainability and circular economy principles</li> <li>• Improve energy efficiency &amp; wise resource consumption, always applying the best practices and innovative solutions</li> <li>• Nurturing and promoting respect for the environment as the fundamental principle for innovation and sustainability throughout the whole value chain</li> </ul>

- Relevance analysis of the 17 Sustainable Development Goals (SDGs) in relation to the coffee value chain.
- Identification of 9 macro-objectives and related commitments, stated as targets in the Sustainability Policy 2030.
- Creation of a Sustainability Action Plan 2017-21, consistent with the company multi-year Strategic Plan, aimed to promote the achievement of the medium terms goals, while outlining measurable actions which will be subject to internal annual monitoring through specific indicators.

Illycaffè -a leader in the coffee sustainable quality production and a sponsor of Human & Environmental respectful lifestyles- is committing to pursue and achieve Sustainability in these three areas within 2030.

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