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## **SALECO Coffee Shop: Business Plan**

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Master in International Management

Supervisor:

Professor Joaquim Manuel Vicente Rodrigues, Invited Associate  
Professor, Iscte Business School

October, 2020





BUSINESS  
SCHOOL

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Department of Marketing, Strategy and Operations

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## **Abstract**

The present project aims to identify the feasibility of integrate a specialty coffee shop in a cooperative of coffee farmers in Toraja (Indonesia). The main objective is providing new sources of income to the coffee farmers, which does not benefit fairly from the increase demand of coffee consumption.

For this purpose, was collected information about the coffee market and performance of the cooperative Perhimpunan Petani Kopi Toraja in 2019 before Covid-19 pandemic. From data bases and market participants, as well from interviews and a survey.

This data was analyzed to support the strategy definition, using the PPKT's strengths of control the upstream supply chain of specialty Arabica coffee from Toraja, with knowledge from the experience in the industry. Capable to respond to the increase demand of coffee consumption and search for experiences.

From the strategy definition it is conceptualized the business with focus on a specialty coffee shop that provides a full experience, showing and teaching the full process from the coffee plantation to the cup of coffee. Per consequence it makes the consumers perceive the high quality of this specialty coffee, while enjoying a memorable experience with all the senses involved, in the coffee shop and coffee tour. As following it is defined the marketing variables to operationalize this concept, with a consequent plan of actions to implement the project, with the economic analysis of the business plan. This economic analysis evidence an estimation of positive results, concluding the viability to proceed with the Saleco coffee shop.

**Keywords:** Business Plan; Coffee shop; Specialty coffee; Coffee tourism





## **Resumo**

O presente projeto visa identificar a viabilidade de integração de uma cafeteria numa cooperativa de agricultores de café em Toraja. O objetivo principal é fornecer novas fontes de rendimento aos agricultores, que não beneficiam de forma justa do aumento da procura por café.

Para isso, foram recolhidas informações sobre o mercado do café e performance da cooperativa Perhimpunan Petani Kopi Toraja a partir de bancos de dados e intervenientes no mercado, além de entrevistas e um questionário. Informação referente à pré-pandemia covid-19

Esses dados foram analisados para apoiar a definição da estratégia, usando os pontos fortes da PPKT de controlo da cadeia de abastecimento do café Arabica especial de Toraja, aliado à experiência na indústria e capacidade de responder ao aumento da procura de experiências e consumo de café.

A partir da definição da estratégia conceptualiza-se o negócio com foco numa cafeteria de café especial que proporciona uma experiência completa, mostrando e ensinando todo o processo desde as plantações do café até à chávena. O que por consequência faz com que os consumidores percebam a elevada qualidade deste café especial, enquanto desfrutam de uma experiência memorável com todos os sentidos envolvidos, na cafeteria e no *tour* efetuado a todo este processo. A seguir são definidas as variáveis de marketing para operacionalizar este conceito, seguido de um plano de ações para a implementação do projeto, com a análise económica do plano de negócios. Esta análise económica evidencia uma estimativa de resultados positivos, concluindo a viabilidade de prosseguir com a cafeteria Saleco.

**Palavras-chave:** Plano de Negócio; Cafeteria; Café especial; Turismo do Café



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## **Glossary**

**AEKI** Asosiasi Eksportir Kopi Indonesia (Association of Indonesian Coffee Exporters)

**ASEAN** Association of South East Asian Nations

**BPS** Badan Pusat Statistik (Statistics Indonesia)

**GAEKI** Gabungan Eksportir Kopi Indonesia (Indonesian Coffee Exporters Association)

**GAIN** Global Agricultural Information Network

**GBE** Coffee green bean

**GI** Geographical Indication

**ICCRI** Indonesian Coffee and Cocoa Research Institute

**ICO** International Coffee Organization

**IDR** Indonesian rupiah

**IMC** Integrated Marketing Communication

**PPKT** (Perhimpunan Petani Kopi Toraja, 2014)

**SCAA** Specialty Coffee Association of America

**SCAI** Specialty Coffee Association of Indonesia

**SCOPI** Sustainable Coffee Platform of Indonesia

**Sulawesi Selatan** South Sulawesi

**Tana Toraja** South Toraja

**Tengkulak** Coffee collector in Toraja

**Toraja Utara** North Toraja

**VAT** Value Added Tax

**Warung** is a small restaurant or café, convenience shop



## **1 Executive Summary**

The aim of this project is to create a business plan to launch a specialty coffee shop integrated in the cooperative of Toraja coffee farmers (PPKT - Perhimpunan Petani Kopi Toraja), in Indonesia. The cooperative works in a collective management, where is aggregated the coffee offer of small Toraja farmers in order to obtain more bargaining power on negotiations. Per consequence they receive more income, making them able to invest on knowledge with training for farmers, technology and operating costs. The main income source are the specialty coffee green beans with less added value than specialty roasted or specialty grounded coffee, which they also sell.

Even though the cooperative shortens the supply chain on upstream, in Indonesia the coffee supply chain is considered too long with more intermediaries as it should and less shared value between the participants on the coffee industry. The most affected participants in the chain with the unstable coffee market are the farmers, since the income from coffee beans are only about 19 to 22% on average of the total price of a cup of coffee. Also, the quality of coffee from Indonesia has been questioned from its instability and diversity, a consequence of lack of knowledge and diverse small farms with different coffee quality characteristics (90% of the farmers holds on average 2ha of coffee plantations).

Despite these issues on Indonesian coffee industry, the domestic coffee consumption demand increased significantly during the last years, with a 144% rise between 2003 and 2017. The global interest on coffee also grown with more concern on the sustainability and fair trade of this commodity, as the attention to the quality of coffee special. The experience and environment during the coffee consumption starts to be more relevant rather than the functional satisfaction.

Toraja is a recognized region in Indonesia, known for the cultural and leisure tourism that evidences the burial traditions in tribes and the landscapes on the highlands with the distinct typical houses. It is also known for being one of the coffee producer's region as well as its high quality Arabica coffee.

Taking this into consideration, the cooperative has the potential ability to develop a coffee shop business integrated in the PPKT supply chain with its specialty Arabica coffee, to create more added value in the business. As well as the exploitation of additional services as coffee tours, co-creation activities and workshops about coffee.

This coffee shop business is named Saleco, as the brand already marketed by PPKT for its specialty coffee. It pretends to be focused on specialty coffee transparency, where it is shown and teach the full process, from the coffee plantations to the cup of coffee, which per consequence make the consumers perceive the high quality of this specialty coffee. While enjoying a memorable experience with all the senses involved.

It is expected to monetize further the PPKT resources with a profitable business with its specialty coffee, providing more sources of income to the cooperative and farmers. Providing better livelihood conditions and a new point of attraction for Toraja Tourism creating more value to the local economy.

## **2 Literature Review**

The given literature aims to contextualizing the reader about the coffee shop operation scope and provide materials on management and marketing tools that will further guide the following chapters' approach.

### **2.1 Coffee shop scope**

#### **2.1.1 Coffee shop concept and management**

The establishment that primarily serves coffee and other hot beverages to final consumer is commonly known as coffee shop, coffeehouse or café. It firstly established in Italy in 1645, and then in 1652 the concept starts a business trend spreading into England (Pongsiri, 2013). The coffee selling is not the only item sold in the menu, but also the physical environment that makes people feel comfortable, such as live music, lightning, wireless hot spot with free internet associated to a workspace and a place to socialize, while enjoy a cup of coffee (Said, 2012)

The coffee shop management requires an extend knowledge about consumer behavior to make smart strategic decisions in terms of target market definition, product positioning, and about tactical decisions with the marketing mix operationality (Susanty & Kenny, 2015) The relevance of understanding the consumer behavior in order to do an effective marketing management plan is aligned with the contemporary concept of places *“to have an experience that involves our five senses, corresponding to a new form of culture, that of coffee”* (Gurgel & Relvas, 2015).

The final objective while managing a coffee shop is the value-added increase and creation of profit effect for investors. The achievement of this goal pass through the customer satisfaction. The most important factors to obtain a customer satisfaction in a coffee shop are a professional service, reasonable price and food quality (Ko & Chiu, 2006) From youth intention to revisit a café, the aspects that should be present are the cozy ambience, wifi and beautiful facility aesthetics (trendy, comfortable, proper lightening and suitable wall pictures)(Jalil et al., 2016).

#### **2.1.2 Specialty Coffee**

Coffee is the second most traded commodity in the world (ICO seminar, 2012), divided into four archetypes with significant differences between global volumes sourced, which

specialty coffee only present 4% of sourcing (IDH - the Sustainable Trade Initiative, 2020). Specialty coffee is high quality coffee of “*beans from controlled environments and a rigorous quality standard in the processing of raw coffee, in the roasting, in the packaging, and in the preparation*” (de Vasconcelos Teixeira, 2019)

The growing preference for specialty coffee shops accompany the more complex consumer preferences for high quality coffee (Ufer et al., 2019). Specialty coffee quality exists as a consequence of being the highest priority and dedication of people who works with it, since the farmers, green coffee buyers, to roasters, then to baristas and finally the consumers. The consideration of specialty coffee is evaluated by a certificated Q grader. Who determines the coffee score to be considered specialty, on a minimum score of 80 on a scale to 100, according to the perceived aroma, flavor, body, sweetness, uniformity, and cleanliness (Specialty Coffee Association, 2003). The inherent culture around this coffee is considered a niche for refine the taste and are able to perceive subtle nuances or aroma, flavor and body provided for different types of preparation, as for example the espresso or drip coffee (de Vasconcelos Teixeira, 2019).

### **2.1.3 Coffee tourism**

The demand for tourism is driven by the differentiated attractions that stimulate the tourists. It can be about experiences, history, culture, nature or even specific places. The coffee is possibly present on these diverse types of attraction, since in each coffee has its own history, the origin place has its identity and culture, as also its own geography. Some coffee destinations are recognized as opportunities for tourism attraction, with the capability to create sustainable livelihoods in coffee farming communities (Kleidas & Jolliffe, 2010)

The coffee tourism is the combination of coffee consumption, history, traditions, products, culture of destination and the motive to attract tourists. It is a niche type of tourism, since the specificity of tourist allowed the product tailored to satisfy their needs (Ali-Knight, 2011).

According to Anbalagan & Lovelock (2014) exists three different types of attractions from coffee: coffee-producing destination, coffee culture destination and coffee history destination. Coffee producing destination explain by itself, it is where is produced coffee and attract tourists by the unique location. Coffee culture destination is related to the habit of consuming coffee on that destination. Coffee history destination detain strong relations



with the past and the coffee activity, such for example an historical coffee shop (Anbalagan & Lovelock, 2014). For Kleidas & Jolliffe (2010), coffee tourism is diversified into four types of attractions, “*the natural attractions*” with coffee growing areas and landscapes, the “*human made but not originally designed to attract tourists*”, such as historical coffee houses and traditional cafés, the “*human made and purpose built to attract tourists*” as for example coffee museums and the “*festival and special event*” as coffee festivals.

## **2.2 Marketing Practices**

### **2.2.1 Marketing-Mix for Retail: Retailing-Mix**

Marketing-Mix is a list of categories of marketing variables to optimize its function together. The universal model is the 4P’s model, defining the Product, Price, Place and Promotion, from its simplicity, although it is considered product-oriented, instead of market-oriented or customer oriented, creating a gap, not fitting every situation and becomes obsolete (Gronroos, 1989).

Retail represents a completion of Marketing process, where is accomplished the contact between consumers and manufacturer products, marketing communications and customer service (Mulhern, 1997). It includes the business activities involved in selling goods and services to consumers for their personal, family, or household use (Berman & Evans, 2018)

In case of services, exists other marketing variables with significance to be related to the marketing-mix management, influenced by the interactive marketing function, covering marketing impact on the customer during the consumption or usage process. To update the 4P’s model and analyses this interaction, which are not just physical (Gronroos, 1994), Booms & Bitner (1980) added three more elements: People, Processes and Physical evidence.

The retailing-mix used with the same variables of other marketing mix for suppliers, although it is more focused on distribution context (Lendrevie et al., 2015) That variables allows to make strategic decisions related with location, store image, physical environment, how to provide the service, and also tactical decision such as pricing related, promotions, advertising, in-store displays, and shelf space (Mulhern, 1997). Besides these variables Lendrevie et al. (2015) also refers the concept of the store, the assortment policy, branding and economic profitability.

### **2.2.2 Integrated Marketing Communication**

Integrated Marketing Communication (IMC) is an often discussed topic, even divergently conceptualized. There are two major, but distinct perspectives of IMC: strategic communications and strategic brand management (Tsai, 2005).

According to (Shultz, 1998) “*IMC involves blending various communication devices (e.g., publicity, advertising, sales promotion, etc.) into a unified and preferable brand image in the marketing campaign.*” with two propositions based on coordinated marketing communication process and one voice brand communication.

Duncan (2001) defines IMC as “*integrating all the communication factors inside and outside the corporate organization, in pursuit of a communication environment in which the brand represents itself through the multi-facets of communication endeavors geared around building a consistent and preferable brand image.*” which allows the target consumers to perceive the brand through strategically integrated marketing messages.

It is a concept in evolution and is continuously expanding, with literature identifying and delineating important and emerging dimensions (Cook, 2004). Lee & Park (2007) identifies comprehensive review on existent dimensions to conceptualize IMC as the consistent message and image, the delivery of different communication to multiple customers groups and gathering the database information about communication to obtain tangible results. As the newly argued fourth dimension, the relevance of communication that urge relationship with existing customers.

IMC is positioned as a firm-wide market relating deployment mechanism that enables the optimization of communication approaches to achieve superior communication effectiveness (Luxton, 2017). As Kitchen et al. (2004) argues about the major participation of clients in the IMC process, constituted by four stages, starting on tactical coordination of Marketing communications, where interpersonal and cross-functional communications within and without the business is highly required. Followed by the redefinition of scope of Marketing communications, gathering information about customers’ organization and evaluating its application. At third stage begins the application of information technology, using data sources and segmented databases, being more effective on communication and implementation planning. Finally, at fourth stage, the financial and strategic integration, where firms monitor the Marketing communications performance from a ROI perspective, creating the link between information and knowledge to an ongoing evaluation.

In Retail and service marketing the viability of IMC concept was ascertain by Nowak et al., (1996) and according to their findings the integrated approaches are more valued when the coordination of media and message delivery are linked to the behavioral responses.

### **2.2.3 Experiential Marketing**

The progression of economic value is staged on selling experiences, the experience economy, to be differentiated in the market with a competitive position and a premium price, above the extract of commodities, making goods and deliver services (Pine & Gilmore, 1999). The experiences were rising with the integrated marketing, since the generic offering to the customers were no longer satisfactory. Requiring personalized and contextualized experiences with a firm's interactions (De Keyser et al., 2015). This shift leveraged the conceptualization of experiential marketing which is defined as *“the process of identifying and satisfying customer needs and aspirations profitably, engaging them through two-way communications that bring brand personalities to life and add value to the target audience”* (Smilansky, 2009: 5).

According do Pine and Gilmore (1999) the experience is constituted by two dimensions which are the customer participation, from the passive to active participation in the event or performance, and secondly the connection or environmental relationship that unifies the event or performance with the customers. This customer attachment to the experience with product or service is more than just satisfying the consumers, creating a concern for marketers, the experimental marketing paradigm (Mccole, 2004).

### **2.2.4 Experiential Marketing applied to coffee shop**

A competitive offer in the coffee industry is no longer just a good cup of coffee, since the coffee consumers mainly consumes for enjoyment and to have an emotional experience (Bhumiratana et al., 2014) As example of integration of experiential marketing in a coffee shop context is Starbucks, which successfully turned the commodity coffee into a Starbucks lifestyle experience. A specialty coffee retailer which serves quality coffee while becomes a gathering place for socializing and work, providing facilities that take advantage of consumers sense, as the coffee smell, comfortable environment, internet connection and downloadable music selections. (Tsai, 2005)

This experiential marketing paradigm diverge between the traditional marketing and the reformulation of concepts and functions. Although the fundamental idea is associated to the traditional boundaries of Marketing manufactured and service products into a domain that concentrates on what experiences the product may generate to make daily life more enjoyable. (Tsai, 2005)

### **2.2.5 Integrated Marketing and customer experience in retail**

De Keyser et al., (2015) defines customer experience as a combination of cognitive, physical, sensorial and social elements that involves the customer directly or indirectly with a set of market actors. The integrated marketing communications can enhance a holistic consumer experience and brand value structure, that creates a positive experience, through these comprised elements (Tsai, 2005) To create an effective experience, managers should first comprehends the consumers, and understand how they react to the product brand involving senses, feelings, thoughts and relational ideas. Accordingly to that, the marketing mix is conceptualized (Tsai, 2005; Vanharanta et al., 2015)

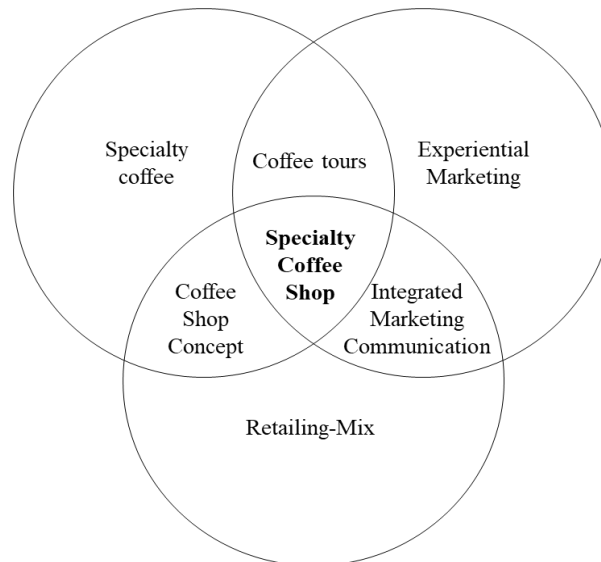
Small business usually has more difficult to survival in the market with competition from large enterprises, whereby this challenge can be solved offering unique and differentiated customer experience as a competitive strategy (Gilboa et al., 2019) A business strategy conceived to manage the customer experience results in a strategy that results in a win-win exchange between the retailer and the customers (Grewal et al., 2009).

Coffee shop as also a service business pretends to obtain positive outcomes through the customer satisfaction, as for example higher level of sales and customer loyalty (W. S. Lee et al., 2018) The relational benefits obtain with the customer are linked with the perceived value and indirectly influence the customer loyalty. This relation is justified by the customer need of wanting to know what to expect while they visit the coffee shop, the relation with the employees who already recognize them, and provide a better service and a quality consumption experience (Chen & Hu, 2010).

### 3 Reference Framework

The given literature review refers two major themes: the coffee scope and the marketing practices. Although the covered topics are related to each other when address the coffee shop business, as presented in the figure 1.

**Figure 1** - Reference framework



Source: Own elaboration

The reference framework consists in the union of the main pillars to develop the business, as the key product, the specialty coffee, the smart way to sell it, defining the retailing-mix and how to provide an experience to the consumers while contact with the coffee shop. The literature helps to correlate these topics with the concept's definition, explaining how to connect the retail to the experience, taking advantage to the integrated marketing communications targeted to the consumers. The concept definition presented in the shop using the key product, using that to provide an experience, through a coffee tour.



## **4 Methodology**

### **4.1 Research method**

The adopted methodology is a qualitative approach to obtain a detailed understanding of the issue and explore the business idea, through a business plan. In order to validate the business idea and related questions, the used methods aim to obtain primary and secondary data, to conduct a business environment analysis with external and internal influencing factors to the market and firm. These data are crucial to create and adapt the strategy development, with guidelines, operational strategy and implementation plan to succeed the business.

The business environment analysis is constituted by a macro context where is determined which constraints can influence the market where the business will operate. Such as political/legal, economic, social, technological and environmental factors, through a PESTEL analysis. A micro context which analyses the profitability and attractiveness of coffee shop's industry through a Porter Five Forces model. Followed by a market analysis which characterizes the market size and functioning. The consumer behavior, to evaluate the coffee consumer profile, demand and preferences. The competition, to characterize competitors with their main strengths, positioning and market position. After these analyses, it is relevant to identify and evaluate firm's strengths and weaknesses, look internally to the resources and capacities.

The internal and external analyses are the support to define the SWOT and following strategic guidelines. That aim to guide on the business strategy, with an effective STP model definition, a Marketing-Mix that describes the 7P's marketing variables adapted to the firm, the market reality and a summarized business Model Canvas.

The implementation plan corresponds to an action plan where is defined the necessary activities to effectively execute the business plan, with the descriptions of it, the metrics to evaluate, the difficulty, the timeline and the necessary budget. In order to prevent eventual contingencies on implementation, it is also planned what to do to mitigate that situations. The financial analysis is the final phase, where is forecasted the revenue and loss, as the initial budget to execute the business plan.

### **4.2 Data source and data collection**

As referred before, the study resort to primary and secondary data. The primary data was obtained through personal interviews and survey.

The personal interviews aimed to obtain information about the industry and the cooperative, as also connect with the business's promotor, the cooperative. The first interview was unstructured, with a consultant of Fairtrade Network of Asia & Pacific Producers that have been working with coffee cooperatives in Indonesia, helping to understand how the coffee industry works in the country and what are the relevant aspects to take in consideration when working with the Indonesian coffee farmers. The second personal interview was done in the cooperative (PPKT) in Toraja with the manager, where it was established the first contact, shared the information to contextualize the business proposal, coffee industry in Toraja and learn the coffee operation in PPKT.

In order to obtain information about the consumers behaviors and position related to coffee consumption and coffee tours, define the business strategy and marketing variables properly, it was conducted an online survey, in English and Bahasa Indonesia (Annex A). Directed to foreigners (potential international tourists) and Indonesian population from urban areas (the potential national tourists) and rural areas (the potential local consumers). The sampling size was 230 answers from 25 countries (4 continents) with different economic capabilities and proportionally representing the majority of Indonesian potential consumers. The Indonesian answers presented 64% of sampling, with 83 answers from urban areas and 65 answers from rural areas (Annex B).

The secondary data was collected through relevant institutions in the coffee industry as International Coffee Organization, Fair Trade International, Sustainable Coffee Platform of Indonesia (SCOPI), Specialty Coffee Association (of Indonesia), and Toffin study. The data from Indonesia was collected from Badan Pusat Statistik (Statistics Indonesia), World Bank and Governmental websites. Also, from relevant books and articles from journals related to management and coffee studies.

### **4.3 Research questions**

This business plan aims to answer to the following questions:

- How can a cooperative of coffee farmers take advantage of the Toraja specialty coffee?
- How can a cooperative integrate a coffee shop on its value chain?
- Is a coffee shop business able to boost coffee tourism in Toraja? And coffee knowledge?
- Is it viable to invest in this coffee shop business? And improve livelihood conditions of coffee farmers?



## 5 Problem Introduction

### 5.1 Problem Statement

The agriculture commodities have an important role in the economic activity in Indonesia. Palm oil, rubber, tea, cocoa and coffee are the biggest agriculture sub-sectors productions contributing for the economic development (BPS-Statistics Indonesia, 2018). Indonesia is the fourth biggest coffee producer in the world, although the quantity of production decreased -13,2% in 2019 compared to the past year (Annex C) (International Coffee Organization, 2019).

This decrease is mainly caused by different challenges that coffee industry is facing, such as: the climate changes, high number of old and damaged plants, lack of maintenance from pests, low technology dissemination and limited government interest, which results in lack of productivity (Sarirahayu & Aprianingsih, 2018).

Also, the Indonesian geography is made by different islands and regions with distinct characteristics. It has a range of implications for sector development in terms of knowledge-sharing between regions, logistics and guaranty homogeny quality on coffee (Jeffrey Neilson et al., 2015). The knowledge-sharing is a challenge for the coffee farmers, caused by the difficulties in communication between them, from the different languages, small networks and low education and skills.

In addition, the fact of 95% of the coffee producers be small farmers (Widaningsih, 2019) create a problem on gather the coffee supply and on enhancing the power bargaining on the value chain, guaranteeing fair prices on upstream supply. The long supply chain is constituted by a high number of intermediaries. Which causes more costs of transportation and less shared value between the participants on the coffee industry. The most affected participants in the chain with the unstable coffee market are the farmers, since the income from coffee beans are only about 19 to 22% on average of the total price of a cup of coffee. (Wahyudi & Jati, 2012). With these issues from the climate changes, lack of knowledge and diverse small farmers with different characteristics in the quality of coffee, Indonesia has difficulties to promote their coffee quality identity (Jeffrey Neilson et al., 2015).

The biggest recognized coffee producers in Indonesia are from different islands and regions such as: Sumatra, South Sulawesi, Java, Flores and Bali. In South Sulawesi, Toraja is the province where the distinguished coffee beans are cultivated in the highlands. It is a multi-dimensional coffee recognized by its expansive flavor with a full-bodied richness

and undertones of ripe fruit and dark chocolate. It makes the differentiation in Indonesia and world for a coffee profile with an exceptional clean and balanced cup of coffee (Ospina, 2017).

Despite the Toraja coffee being distinguished as one of the best in Indonesia by the flavor and characteristics, that is not the main reason why Toraja is a recognized place. This province is where an ethnic group keep their identity and cultural heritage since their origins, related with beliefs, traditions and burial rituals of the Toraja people (Wonderful Indonesia, 2019). It has been the reason to attract tourists during the past years, although this region has potential to change the dark image related to the dead, diversifying to a lighter appeal, which is coffee tourism (Jakarta Post, 2017)

## **5.2 Problem Relevance**

The small and medium enterprises (SME) has an important role to contribute to an economic development in a developing country. They have a role to create more employment, drive an economic growth and innovation in the country (Kotelnikov, 2007). Along with that, the SME's contributes to the household income and welfare (Liedholm, 2013). Indonesia is a developing country (United Nations, 2014), where the local economy has relevance to the quality livelihood of the population and the contribution from SME's is a way to dynamize that.

Toraja is a province in South Sulawesi where the economy is fueled by the agriculture, construction and local retail, contributing more than 60% to the regional GDP in 2016. Adding to those contributors, the tourism has been growing, with a 70% increase of tourists on 2017 (BPS - Kabupaten Toraja Utara, 2018). However, this factors to the economic growth does not reflect the improvement of local families' livelihood. Even though agriculture is the main contributor to dynamize the economy, the farmers do not profit, from their activity, the enough amount to upgrade their life quality and sustain their families. In case of coffee farmers, the coffee is the main source of income for Toraja farmers, contributing to reach 60% of the total annual income of farmers (Food and Agriculture Organization of United Nations, 2017)

As referred before, the Toraja farmers are considered small, less powerful to bargain with big stakeholders that can make a difference on their business and with low education that can affect their productivity. That is the main reason why the cooperative of Toraja coffee farmers has been created, named Perhimpunan Petani Kopi Toraja. Where it is

possible to join in the same place all the coffee offer, manage the demand with more power to bargain the prices, and share knowledge between farmers about the coffee production (Perhimpunan Petani Kopi Toraja, 2014). The cooperative management allowed the farmers to improve their businesses, while they can increase their income from the coffee production. Through this collaborative management they have opportunity to invest more in technology, adaption to the possible threats and shorten the supply chain, which are the main problems in the coffee industry.

The regional potential of coffee and tourism together can be another way to create value and dynamize the local economy, being an additional income for the local families and region. It can diversify the type of tourism while give opportunity to reveal the coffee tourism potential, through the consumption of quality coffee, visit the coffee fields and know more about the local farmers daily life.



## 6 International Context and Trends

The coffee is recognized by their energy effects and characteristic taste, which made the past colonies spread the plantation in the world, where nowadays are placed the biggest producers of coffee, such as Brazil, Colombia and Indonesia. Coffee is the second most traded commodity in the world, after oil (World Tradia, 2019), being a valorous industry to the global economy. It represents US30,4\$ billion of exportations in 2017 (Observatory of Economic Complexity, 2018).

The coffee production is present in more than 50 countries, demanding a world where it is consumed over 3 billion cups a day. The biggest producers of coffee in the world are Brazil (37,6%), Vietnam (17,3%), Colombia (8,0%), Indonesia (5,5%) and Ethiopia(4,5%) with an total of 172 452 thousand of 60kg bags of coffee traded in 2018 (International Coffee Organization, 2019). The production is tendentially growing, with a rise of 7,8% comparing the year of 2018 with 2017.

The world consumption is tending to growth with 60% over the past 20 years (International Coffee Association, 2019). One fact that influence this increase is the globalization, which is the development concerning the structuration of the world as a whole (de Mooij & Hofstede, 2010). This development has allowed the creation of global brands such Starbucks, a coffee shop differentiated by the consumer experience and the social responsibility. Also, coffee shops as Starbucks, take advantage from the lifestyle of the working community and it influences the socialization. From this benchmark company, it is easier to define coffee culture, since it exemplifies what is the infusion of coffee with social and symbolic meanings.

The culture is the collective programming of the mind which distinguishes the members of one group or category of people from another (Hofstede, 2001). In this situation, the category of people who frequents the coffee shops, with a lifestyle that requires energy from coffee to focus, and enjoy quality coffee, integrates an increasing of demand for coffee shops. Where are available besides the coffee, extra services such as Wi-Fi, quiet and comfortable places to work or socialize (Mohamud et al., 2017; Tucker, 2017)

The countries with an annual per-capita consumption of coffee with highest values are United States (traditional market for coffee consumption) and Brazil (an exporting country), consuming between 5kg and 7kg. Besides these countries, the coffee consumption has risen in coffee emerging markets such as Russian Federation and South

Korea. And producing countries, as Indonesia, faster than traditional markets, which provides more market opportunities (International Coffee Association, 2019)

The rise demand for coffee consumption create an expectation which supply overachieve, creating an overproduction for two consecutive years in 2018/19. Adding this, to the concentration of buyers with high power of negotiation compare to the farmers, make the prices dropping 30% on the last two years (International Coffee Association, 2019). This low price doesn't permit the farmers and coffee-producing household to cover their operations costs as input, the transactions costs, continue to be compliant in the production and sustain their livelihood with the minimum income to at least survive.

This situation of high volatility of coffee prices create instability on quality coffee and production, besides the livelihood conditions of the households. In order to solve these problems and others, the Fairtrade was implemented in coffee industry.

Fair trade is applied in developing countries, contributing to the improvement of living conditions of farmers, across a certification that requires some requisites on quality of production and labor conditions, in exchange for better price conditions and access to advance credit ahead of harvest time. With this system of trade, the price has a minimum required to guarantee that cover the costs of production and sustainability of the business and farmers.

Beyond the normal certification, it is possible to acquire the Fairtrade premium price, where the producers need to cover more requisites, in order to obtain a higher price of coffee than the standard. The extra money should be invested in projects that improve their business, and enhance social, economic and environmental development. The Fairtrade certification exists in 582 producers' organizations and 762 392 farmers, presenting a growth of 32,6% on the last 5 years (Fairtrade International, 2019).

Along with this growth, the existent sustainability in the coffee industry, as part of influence by Fairtrade, create opportunities to new investments in markets as specialty coffee, which is high enhanced on sustainable coffee. A sustainable production of coffee creates the conditions for the improvement of quality on coffee, which is used on specialty coffee market, where the cuppings and tasting of high-quality coffee is present (Fairtrade International, 2019).

Traditional Markets, as United States of America, Japan, Germany or Italy have been reinventing the coffee market making them more valuable across other market segments, such as specialty coffee. It provides to consumers more diversity on new flavors and quality of coffee. Beyond this market segment, other trend is the experience around the

coffee consumption. Mostly characterized as coffee culture, achieving more relevance on attending coffeeshops, to do social gathering, to work in a space with internet, to enjoy quality coffee on leisure, or simply to use the energy provided by the coffee during a busy day in professional daily life (Tucker, 2017).





## **7 Business Environment Analysis**

An external analysis consists in an overview description of the factors from the environment that influences the market performance and business, such as historical data, actual trends, and future predictions.

### **7.1 Macro-environment analysis**

#### **7.1.1 Political and legal**

Indonesia is a country with seventy-six years of independence from Dutch colonizers. Since 2011, it turns into a dynamic and decentralized elected democracy with some particularities, such as the existence of two levels of sub-national governments composed of 34 provinces and 508 local governments (World Bank, 2020).

The administrative regencies exercise bellows the central government, although they are a unitary state with the principle of broad regional autonomy. With this principle, the local government has more independence, power and responsibilities, to operate with greater know-how and effectiveness on the local population needs. Competences for public works, healthcare, education, cultural and social affairs, labor, environment protection, land, citizenship and investment are devolved to local (Pal & Wahhaj, 2017).

Although, it allows the potential problem of capture of public investments in the community by local elites (Bardhan, 2002). Also, this part of the community has a recurrence of bribing to grassroots positions to guarantee the procedure goes on their preference. It highlights a political problem and a norm of working based on relations by interests, that can affect a business development (Olken, 2007).

In order to improve the accountability of infrastructure spending by local governments, it was developed a project Specific Purpose Grants, or DAK, implemented in 2014 in 78 local governments at the time, which receive the reports of grants transferred to the local government and the use of it. It gives incentives to be effectively implemented, guaranteeing the reporting to the government, and the development of public infrastructures, as roads, sanitation, water irrigation, and others (World Bank, 2016)

In 2014 was approved the village law, which grant to the 74,000 villages in the country 1 billion rupiah (approximately US\$75 000) per year, in order to invest in public projects, as structures, roads, agriculture and other support for a sort of activities in the villages (Vel, Zakaria, & Bedner, 2020)

According to the South Sulawesi government, one of the priorities for the mandate is the increase of knowledge on the communitarian cultivation, in order to optimize the results on production (Provinsi Sulawesi Selatan, 2020). In this province, exists 21 regencies and local governments, where Toraja counts two, north Toraja and south Toraja.

The coffee industry development in Indonesia is regulated by three organizations: the Ministry of Agriculture, the Association of Indonesian Coffee Exporters (AEKI) and the Indonesian Coffee and Cocoa Research Institute (ICCRI) (Jeffrey Neilson et al., 2015).

The intervention of government in this sector tend to be ad hoc and 'project based', which not support its development, and where public service delivery continues with the existence of corruption and inefficiencies (Jeffrey Neilson et al., 2018).

According to Marsh et al. (2007), it exists a legal form of property rights issued by National Lands Agency (BPN), although the study sample (32699 households growing arabica coffee) did not have any respondents from Toraja with coffee farms certificated (2010). This is the form to recognize the properties by bank for the purpose of providing finance.

The creation of a business, in this case related with food and beverage service, is covered by the law article number 20 in 2008 related with micro, small, medium enterprises, where is defined the size of the business according to the annual results and the requirements to be considered an enterprise on that range. As a business it is also needed to pay annually the 25% of corporate income tax rate to the government (if the income is less than 50 billion IDR, the tax is 50% less) and the value added tax applied to goods, services and imports of 10%, in case of exports is 0%. In case of property ownership, it is also needed to pay an annual tax of 0,1% or 0,2% based on the actual sales value of property's transaction (KPMG, 2018)

The food and beverage service are also covered by a certification form the Drug & Food Control Agency (BPOM) in case of provide a halal menu (approved by Islam for Muslim followers).

### **7.1.2 Economic**

According to the world's fourth most populous nation size and income level, Indonesia is part of a group of Middle-Income Countries (MIC) with a fast growth, being the largest economy in Southeast Asia. The GDP per capita has steadily risen from \$780 in 2000 to \$3 893 in 2018 (World Bank, 2020) with a domestic demand being the main driver of

growth, supported by robust investment, stable inflation of 3% in the last 5 years, considering 2,73% in 2019 and a market with 95% of employment in 2019 (BPS-Statistics Indonesia, 2020). As part of G-20 countries, Indonesia can discuss the financial and socioeconomic issues between developed and developing countries. Even being a developing country, it contributes for the 80% world's economic output, as the others G-20 participants (G20, 2020). The main contributors to Indonesian is GDP valued in 3 089 PPP billions in 2019 (World Economics, 2019) from these industries: manufacturing industries (19,7%), wholesale, retail trade and motorcycle/car repairing (13%) and agriculture, forestry and fishing (12,7%), being approximately the same proportional values comparing 2018 with 2019 (BPS-Statistics Indonesia, 2019).

The commercial balance is inconstant with positive and negative value on the last 5 years, once comparing the exportations and importation. In 2019 commercial balance was negative in value, not only based on 6,8% decrease on exportation compare to 2018, but also the importation was less valued in -9,2%. Although the values in quantities are very different, with a large difference between exportation to importation, as for example in 2019 Indonesia exports 654 474,4 thousand tons compared to the 162 628,7 thousand tons imported, what is explained by the low value products that are exported as minerals, compared to the high value products imported (BPS-Statistics Indonesia, 2019).

Coffee represent 0,05% of total exportation in tons 2019, presenting a significant rise of 28,2% compared to 2018, exporting 355 766 tons in 2019. The countries where is most exported are United States of America (16,5%), Malaysia (9,7%), Japan (7,2%), Italy (10%) and Egypt (9,6%) (BPS-Statistics Indonesia, 2019).

The net wage per month in total regions is on average 2 829 130 IDR. In case of Food Services Activities, the average salary is 2 242 968 IDR. Regarding agriculture the number is much lower 1 887 627 IDR, and even less in South Sulawesi with 1 574 425 IDR (BPS-Statistics Indonesia, 2019).

The poverty reduction has been a government's objective presented on the Medium-Term National Development Plan (2015-2019) quantified by 11% to 8% of reduction poverty rate, which was achieved with 9,4% of poverty reduction in 2019. It is part of the development priorities on the 5-year medium-terms plans, included in the 20-year development plan (2005-2025) called the RPJMN (Rencana Pembangunan Jangka Menengah Nasional) (International Fund for Agriculture Development, 2016). Most of the poor population lives in rural places with an alarming 62,7% of people living below

the poverty line with less than 2USD a day (International Fund for Agriculture Development, 2015).

North Toraja had an economic growth of 7,56% in 2019, with 9,60 trillion IDR, with origin on 23,5% on wholesale, retail trade and motorcycle/car repairing, 16,4% on construction, 15,2% on agriculture, forestry and fishing and 3,05% on accommodation and food services activities. It has similarities with the industrial origin GDP on total country, as retail and agriculture. The second sector of economy, the manufactory industries also has been a significant impact on the regional economy, with a fast growth, and creation of employment, helping to reduce the 2,9% of unemployment in 2019 (considering the fact that, the labor population doesn't consider, population under 15 years, and population who take care of home). The contribution of 6,9% of the manufacturing sector is growing by the time, approximately two percentual points on the last three years. Food and beverage are the main employment contributor to this slight decline, since it represents 84,6% of total. Accommodation and food services activities had been growing on the last 5 years with 0,6 pp% (BPS - Kabupaten Toraja Utara, 2018).

### **7.1.3 Social and cultural**

Cultural diversity is one of the biggest points of Indonesia's differentiation, once compared to other countries in the world. It has been shaped by the interaction of 300 ethnic groups native to the region and foreign cultures (World Bank, 2020). Indonesia is in a region crossed by trade routes between the Middle East, South Asia and the Far East, which contributed to the spread of several religions. It is known for the official six religions recognized by the government: Muslim, Catholic, Protestant, Hinduism, Buddhism and Confucianism, demonstrating the high level of tolerance between individuals.

Also, the fact of Indonesia being constituted by thousand islands, create some diversity and mixed types of religions, constituted from the religion and other beliefs. In case of Toraja, most of the population are Christian but also believe in Aluk To Dolo (meaning way of the ancestors) related with their ancestral rituals with dead people. In South Sulawesi exists two major ethnic groups Makassar and Bugis. The last one with a historical troubled relationship on the borders of Toraja (Jeffrey Neilson et al., 2013).

Despite this diversity, Indonesia is considered the country with the biggest Muslim population in the world, which is highlighted to affect in the daily habits and decisions of

the most of population (Central Intelligence Agency, 2020). The country was constituted by 273 523 615 people in 2019, with an average growth 1,3% (United Nations, 2019) With a high population density in Java, one of the thousand islands, with 245 million people living there. At 2020, Toraja region has a total of 232 394 people in North and 232 821 in South, with an average growth of 0,6% on the last 5 years. The human development index in total country has been increasing with 71, 4% in 2018, although in Toraja the percentage is less with 68,5% (BPS- Statistics Indonesia, 2020).

The diversity on culture is also present on types of tourism, where Indonesia is recognized as a destination for leisure, nature exploration, art and crafts and culture. It is also known about some destinations, as Bali (Bloom, 2020), Papua (Raja Ampat), Java (Yogyakarta and Bandung) in Java and Sulawesi (Wakatobi and Toraja) (Wonderful Indonesia, 2020). Tourism in Indonesia has been increasing through the time, presenting an increase of 67,6% of foreigners on the last 5 years, with 15 810 305 foreign tourists in 2018. Mostly from Asian countries, as Malaysia, Singapore and China. Sulawesi's tourism e mostly recognized by the snorkeling and cultural distinction in Toraja. (BPS- Statistics Indonesia, 2019).

The figures in North Toraja are slightly different, starting on type of tourists, where 83% are from Indonesia and 17% are foreigners, mostly from France (12,4% of total foreigners), in 2018. The tourist's visits increased 8,6% in 2018 with a total of 310 114 visits. The seasonality of these visits is significant during the months of local holidays (November, December, January and July) and in case of foreigners the situation remains the same although it is referred to the months between June and August. This demand for tourism in Toraja is mostly related with the unique culture and intact habits over the years. A culture mostly related to burial rituals that attracts a niche of tourists who see value on these intact traditions, especially older visitors. Although the nature tourism with the mountains landscape and the typical houses, the *tongkonan*, are also a motive to visit the region. (BPS - Kabupaten Toraja Utara, 2018).

#### **7.1.4 Technological**

Technology is one recognized pillar from the government to develop the Indonesian economy. It is planned a technological transformation to overcome limited technological sophistication in some industries as manufacturing, in order to unlock Indonesia's growth potential. In food and beverage is identified the opportunities on healthy food

customization, the use of digital tools to reduce material waste and digital platforms to integrate sales channels (Asian Development Bank, 2020). The use of digital platforms as a new channel to do sales is significant in the country, using social media, customer to customer marketplaces to sell products and services and other on demand services. This growth in the use of digital is accompanied by the performance of digital Indonesian companies that are already considered unicorns such as GoJek (on-demand transports and logistics service), Traveloka (a transport, hotel, and leisure booking platform), Tokopedia and Bukalapak (a customer-to-customer online marketplace) (GreenHouse, 2019).

The use of information and communication technology (ICT) can create impact in two main aspects in the coffee market: on production and on coffeeshop's experience. The technological equipment in production requires high investment but also provides more efficiency and more profit in long term. Also, the digital technologies, as information systems are useful to facilitate the farm management (International Coffee Association, 2019).

However, in Indonesia, the farmers detain in majority small farms and low income in order to invest on technology, maintaining the traditional way to produce the coffee, on plantations, choosing beans and roasting in large scale. In other perspective, the technology present on coffeeshop can differentiate a place, as for example the existence of internet or the types of equipment that serve different types of coffee (Tucker, 2017), as manual brewing that is a trend of a method to make the best coffee flavor (Toffin, 2020). In Indonesia, these kinds of places are more frequent in cities, where the target see more value on that.

### **7.1.5 Environmental and Geographic**

The geographic position in Pacific and Indian ocean, with 16 056 registered islands by (United Nations, 2017). Along with the location on Ring of Fire, within its borders exists about 400 volcanoes, and being located between numerous tectonic plates, Indonesia has high potential for natural disasters, as tsunami or earthquake (World Atlas, 2020). Besides that, is a country with tropical climate with two seasons, dry and rainy season, which expect severe droughts and floods on respective seasons. However, the global environment has been facing a climate change, which difficult the agriculture management, and create instability on coffee production, since the presence of diseases on coffee plants, unnormal

growth of beans, until the output with quality on coffee beans (Sarirahayu & Aprianingsih, 2018).

The origin-label on coffee is a way to differentiate and add value to the product, while it is used an effective geographical indicator (GI), which are “*a form of collective intellectual property through which, it is anticipated, producers can capture the place-related value embodied within a product.*” (Jeffrey Neilson et al., 2018). Although Toraja has not being effective on that, even with a identified "Toraja Coffee Arabica". As referred in the research made by these authors, since in the analysis done in Jakarta's supermarkets, in the existence of 9 Toraja coffee products, none of them where using the exact protected name or the GI label. Although it was identified a national desire to protect cultural property against the potential and actual foreign appropriation of the GI's, on trademarks and use of place names on branding, in order to add symbolic value to retail sales (Jeffrey Neilson et al., 2018).

## **7.2 Micro-environment analysis: 5 Forces' Porter Analysis**

The Porter five forces is as used model to characterize the industry and identifies the industry's weaknesses and strengths, to understand its attractiveness and profitability.

### **7.2.1 New entrants' threat**

The coffee shops market requires a different scale of investment depending on the intended facilities to build it, as for example the location, the furniture, the type of coffee and equipment's. Although, to have a coffee shop in Toraja isn't needed to much investment, since the region is in a rural place with most of resources available, as coffee and wood, for traditional furniture. In Toraja, exists various types of places to sell drinkable coffee, starting on “coffee on-the-go” which is sold on the street, the “*warung kopi*”, small restaurants that sells coffee or food, and the most known traditional coffee shops, where the experience and place to enjoy the coffee has more relevance. It is needed a high to medium investment to obtain a good coffee machine to make difference on coffee quality. Although, the facility to create a place as these three coffee shop's types, requires low to medium investment, respectively.

The distribution channels are extensive, with a long supply chain, starting on producers, to village collectors, regional collectors, and finally the coffee buyers to resource the coffee shops. Although most of the coffee is local produced, which makes

easy to connect with the chain and take a relation with the intervenient in the distribution channel.

In terms of experience with this service of coffee, it is not required to many, since the common form to drink coffee in Indonesia is using powder with boiled water. Which make able all the interested entrants on the business to start with this minimum ability. This simplicity on the basic service creates low brand loyalty and extremely low switching costs to other competitors, creating even less barriers to entry in the market, since it is not concentrated.

As government requirements, are the same as other food service activities business, with the general taxes and regulations, without any constringent on type of business.

Considering these coffee shops characteristics, the new entrant's threat is evaluated as low.

### **7.2.2 Market Rivalry/ Exit Barriers**

The coffee shops industry in Toraja is fragmented with diverse types of establishments, since the most basic service to a few coffee shops with specialized service focused on coffee quality, which create significative level of differentiation between them. This provide opportunity to create brand loyalty through the quality presented. Also, the prices accompany the quality of the products served and service offered, which provides more prices elasticity.

According to the registered coffee shops in 2020 on Google maps, Toraja has 38 players, which are divided 20 coffee shops in North Toraja and 18 coffee shops on South Toraja. It is considered low compared to the total population of almost half million in the two regions. Although the rural lifestyle does not go with so much frequency on this kind of establishment, as in the city. Besides that, tourists also represent great significance on demand since coffee is one of the attraction factors in the region.

These coffee shops have low to medium fixed costs, since it is related to the place facilities and human resources, that usually are the owners of the space and a few more employees.

The barriers to exit the business on this industry are relatively low, since the assets are easy to sell based on their value and size. It does not require any costs or legal procedure to do it.



Based on these characteristics the market presents some rivalry between competitors, although each of them has just low to medium influence on the industry flow.

### **7.2.3 Substitute Products' Threat**

The coffee consumption is possible from different channels and places, starting on the street with small stands or street vending, on *warungs* and restaurants, on supermarkets or convenience stores with a ready to drink coffee consumption, and finally making the coffee at home.

The street vendors can either sell ready-to-drink coffee, usually made in a basic form, coffee powder dissolved in hot water, or coffee powder as a Toraja's souvenir, with a low price. Which can satisfy the need of drinking coffee, although doesn't provide any experience during this consumption. As the same level of service provided, it is the selling of coffee ready to drink in supermarkets or convenience stores. The presence of these substitutes in Toraja are few but with low ability to substitute the experience provided in a coffeeshop.

In other hand, the presence in Toraja of around fifty restaurants or *warung* where the coffee service is provided, represent more threat, specially the restaurants, since the target is more similar and search for more than drinking coffee. They can provide an experience around the coffee consumption even it is not its specialization and the Toraja coffee is not the focus on the service. It is considered a medium threat to substitute relatively to coffee shops.

In addition to that, it is important to refer that Indonesian culture has some influence from another Asian countries where the tea consumption is relevant. It exists in Toraja some tea houses although are just a few and the target is more focused on Torajan coffee.

Therefore, the level of substitute products' threat is different on type of experience and prices when compared to the coffee shops, since the customers who look for coffee consumption with an experience, have more requirements and they are less willing to substitute that to other form of coffee consumption. Representing a high switching cost to the customers, when analyzing the level of satisfaction through a coffee specialized service and the inexistence of that.

#### **7.2.4 Power of suppliers**

Most of coffee shops' suppliers are small local suppliers and correspond to furniture, coffee, food and beverages, and other consumables supplies. In case of furniture, Toraja is known for its specialty on wood traditional furniture, which creates more offer and lower ability to substitute.

These other identified suppliers exist in large number in the market. Although, exists some exception on the equipment, as coffee machines, depending on the type of coffee served and level of specialty service, where the supply is lower, the greater specialization. In case of coffee supply exists four main wholesalers, who mostly export: PT Toarco Jaya, KUD Sane, PT Sulotco Jaya Abadi and Toraja Coffee Farmers' Cooperative (PPKT) (Jeffrey Neilson et al., 2013). Even though exist village collectors or cooperatives on an upstream level, which make easier to have access to coffee supply, with lower quantities, as for example the Toraja Coffee Farmers' Cooperative.

In 2008, North Toraja presented a total of 38 small to medium companies of grounded coffee for consumption, which is significant, but still with space for other competitors in the market (BPS - Kabupaten Toraja Utara, 2018)

As sum, in case of consumables and furniture, the power is low, as the coffee supply, creating ability to substitute the supply relatively easy. And the equipment supply has mostly low to medium power, depending on the type of technology pretended.

#### **7.2.5 Power of customers**

The coffee shop customers come from two different paths, the local population who wants to socialize and enjoy the coffee experience, and the tourists from Indonesia or foreigners who look for trying the known coffee from Toraja and get a new experience. The foreigners are less price sensitive, compared to the locals since they mostly have more purchase power and know less the usual price per coffee in the region. In the case of local customers, they are more sensitive to variations especially for higher prices, taking that in consideration to choose the coffee shop.

Taking into consideration the information availability, the customers have access to coffee shop characteristics, even before going to the space, which creates more power on their side to choose which one suits best, based on the environment, type of service, menu and type of facilities such as internet or live music, for example.

At this level the customers' power to choose another coffee shop to be served is high, representing a low switching cost to them, unless exists a significant differentiation from one of them, and creates a relation of loyalty with the place. In that case, it is more difficult to the customer to find another one with these expected characteristics.

On the coffee shop perspective, the cost of a customer switch to another coffee shop is low, since the size of each order is relatively low, and does not affect the business flow.

In conclusion, the customers have high level of information on their side in order to make the best decision, although this power is considered low, since their value individually is not significant to the business.

### **7.2.6 Conclusion: 5 Forces' Porter Analysis**

Coffee shops market in Toraja is relevant for the region, since coffee is one of its attractions, which provides more potential and dynamism to these types of business. It is a market with some rivalry between competitors from the larger customers' demand and coffee supply. Although, it still has space to create more supply and differentiate offer, taking into consideration the low to medium influence of customers, suppliers, other competitors and substitute products. As conclusion is an attractive industry do invest, where the risk is low and the expectation to be profitable is high.

### **7.3 Market Analysis**

Coffee industry in Indonesia is dynamized by production, trade/exportations and domestic consumption. In consumption, it is included sales of coffee bean business to business and to final consumer, in raw (green bean), roasted or in powder. Analyzing the period of 2009 to 2019, the production has been slightly instable during the last 10 years with an average volume of 10 871 thousand 60kg bags per year. In addition, the exportation presented an instable volume value with constant growth and decline, with 4 618 thousand 60kg bags. in 2019. At last, the consumption presented a constant growth every year with a total of 4 800 thousand 60kg bags in 2019 (Annex C) (International Coffee Organization, 2019).

The coffee culture has been grown, creating greater local demand for high quality and specialty grade coffee. This rise absorbs part of exports supplies, which push up the prices, creating a negative implication for foreign buyers. Although this current demand helps to shorten the supply chain, allowing farmers to sell directly to local roasters (SCOPI, 2019). Indonesia is known primarily as a bulk producer of low-grade Robusta

coffee, around 85% of production, alongside with the highly sought-after specialty Arabica coffee (Neilson et al., 2018). It is highly fragmented, since approximately 95% of production is cultivated by small holders who generally detain farms whit less than 2 ha (BPS- Statistics Indonesia, 2018)

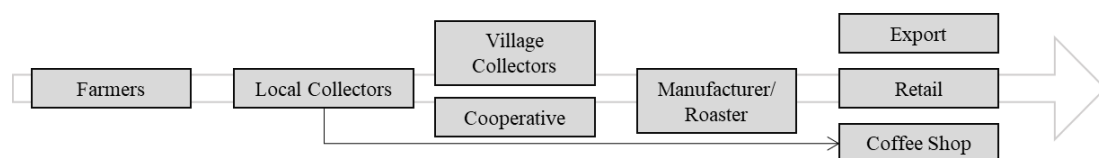
In Toraja highlands are produced the two types of coffee: Arabica and Robusta coffee, with majority on Arabica, since the minimum high to have plantations of Arabica is 800 to 1200 meters and for Robusta is 0 to 900 meters (International Coffee Organization, 2019). Toraja<sup>1</sup> highlands are mostly on an altitude of more than 900 meters. The production in South Sulawesi decreased with 33 907 ton of coffee in 2018, almost less one ton than the previous year. The productivity considered the same behavior then production, presenting a total of 640 kg per ha., from the total of 71 835 ha in 2018. The productive months to harvest are between May and November, varying slightly depending on the climate of that year (BPS - Statistics Indonesia, 2019).

Although, South Sulawesi coffee presented an average coffee price in 2019 of 2 595 968 IDR per 100kg, above the national average of 2 261 112 IDR/100 kg, explained by the higher price of arabica specialty present on the region. The behavior in South Sulawesi has been contrary of world prices, increasing every year with a 7,8% growth between 2019 and previous year (BPS - Statistics Indonesia, 2019). According to ICO the world coffee prices dropped by 30% on the last 10 years, caused by overproduction (International Coffee Organization, 2019).

### 7.3.1 Value Chain

Taking in consideration that the present business plan is for a coffee shop in Toraja, it is important to understand the multi-tiered value chain structure, influencing the business input.

**Figure 2 - Coffee industry value chain in Indonesia**



Source: PPKT and own elaboration

<sup>1</sup> North Toraja

A value chain describes all the activities which are required to bring a product or service from conception, through the different phases of production (involving a combination of physical transformation and the input of various producer services and delivery to final consumers) (Kaplinsky & Morris, 2000). Other activities that can comprise a value chain are R&D, design and marketing. Normally, in the coffee industry, the value chain includes: the raw materials at production; transportation and warehousing (where the collectors has significant relevance); manufacturing (includes coffee roasters/grounders and manufacturers to do the branded coffee with all the marketing to sell on shops and retail); distribution and the final product goes to other countries as exportation; coffee companies as coffeeshops; and retail as supermarkets.

Through a ‘value chain approach’, it has been adopted strategies to improve the livelihood of small producers in rural places, as in Toraja (Neilson & Shonk, 2014). This global value chain in Indonesia, begins at production level with small plantations, sized on average 1 ha, producing low quantities of coffee beans (around 50 kg), which are collected by a local collector, also known as *tengkulak*. After this, the coffee is sold to a village collector, and in some cases is sold also to an up level, the district collector, the greater the quantities traded (Rahmanulloh & McDonald, 2018). At downstream level, the product is roasted and/or packaged on manufacturer to be distributed to other countries in case of exportation, to shops and supermarkets in case of retail. The coffee shop is usually supplied by local collectors or farmers, since the needed quantities are lower, unless its supplier do not roast the coffee beans, which is necessary to serve the coffee.

Toraja has some differences comparing to the Indonesian general supply chain, since the competition can be intense amongst buyers, particularly in the preferred growing district of North Toraja, where the physical geography provides good conditions to produce the highest quality coffee on Sulawesi island. It exists two major foreign coffee investments which collectively absorb an estimated of 90% of Torajan coffee production. Toarco Jaya from Japan which has a vertical integrated operation with a coffee chain Key Coffee in Japan, and the KUD Sane, a cooperative who cooperates with US-based Cooperative Business International (CBI), a key supplier of Starbucks coffee chain. Besides these two players, it exists another player with significant presence in the domestic market, Sulotco Jaya Abadi, which is part of food and beverage group, Kapal Api Global. These companies are supplied across *tengkulak* with who they cultivate a relationship based on loyalty, encouraged by annual rewards based on careful tracking of supply volumes and quality.

At the same level of supply in the value chain are the farmers' cooperative, a collective management of coffee, where exists support through the process of production and training to get knowledge to do it. This level on chain can sell the coffee on bulk to other companies inside Indonesia and outside through exportation.

The coffee exportation are mostly green bean Arabica and Robusta, which imply 99% of a total 279961ton Indonesian exportations in 2018.

### **7.3.2 Coffee on Retail**

Coffee on retail includes the selling on grocery shops or souvenir shops, but mostly on supermarkets as for example Indomaret, a local convenience chain stores, where it can be bought in powder or ready to drink. The retail in Indonesia is lead per chains as Indomaret and Alfamart which in 2017 sold in sum 8,86 billion \$ (118,8 trillion IDR) with 12633 outlets and 13991 outlets respectively. The top 10 leaders in retail value in sum 16,2 billion \$ (238,4 trillion IDR) (Euromonitor International, 2017). The coffee on retail volume and value growth on coffee was moderate in 2019, but slower overall that it was in the previous year, as the category continues to mature. Although, the instant coffee saw the higher growth, since the brand create marketing campaigns with local artists on TV, social media and YouTube (Euromonitor International, 2019). In case of coffee ready to drink (RTD), has increased significantly on a small period, with a 140% growth sales volume on retail between 2013 (50million liters) and 2018 (120 million liters) (Toffin, 2020).

### **7.3.3 Coffee Shop Industry**

The coffee shop industry in Indonesia is considered still new, marked by four waves in the history. Starting in 1985 with the era of traditional coffee shops, locally known as “*warung kopi*”, where customers enjoyed Ready-to-Drink (RTD) coffee and starts the culture of going to a coffee shop as a reason to hang out. Some coffee shops were more modern, such Olala or Excelso with a more extensive menu. Besides this coffee culture, Indonesian were used to drink instant coffee (in sachet) produced by big brands as Kapal Api (the same group as Sulotco Jaya Abadi in Toraja) and Nescafe for example (Toffin, 2020).

The second wave started in 2001. Characterized by the change type of needs relative to coffee drinking, which usually was a functional need, and shifted to an emotional need

where the coffee consumption has become part of high-end lifestyle. Starbucks and Coffee Bean are examples of chains with success at this wave. In 2013, coffee culture continuously increased, with customers more interested in how a cup of coffee was made, looking at the coffee as an artisanal product rather than a commodity (Toffin, 2020).

On this third wave, people give more attention to the presence of coffee machine, the manual brew and specialty coffee, which created more focus on the potential of coffee shops business in the market. Brands as Tanamera, McCafe and J.CO Donuts enter in the market at this point (Toffin, 2020).

Finally, the fourth wave, the current wave, started in 2016, is characterized as a growth on the market caused by aggressively new entries with new players with the coffee to-go shop (take away). This new concept was pioneered by Kopi Kenangan, Janji Jiwa, Fore, and Tuku, who come to the market along with the booming of promotion of quality coffee ready-to-drink on the go with affordable price. The high demand for this type of coffee is causing an increase on the number of coffee shops that offer this type of service with the same affordable price (Toffin, 2020).

Regarding the coffee shop business market, it is quantified in 4,8 trillion IDR per year, with 2 950 registered points of sale in August 2019 (exclude sales in street coffee vendors (warung kopi) and mobile coffee vendors). It considered an average sale of 200 cups of coffee per day with a price of 22,5 k IDR (Toffin, 2020).

*“Local and small coffee in rural areas in Indonesia have been a parameter on how big the business is. The growth could be at a double digit. This is why we entered the market by launching Harvest Express.”* (Edison Manalu, CEO Harvest Group) (Toffin, 2020)

According to TOFFIN, exists seven types of coffee shop categories: American coffee chain, Italian coffee chain, local coffee chain, coffee to-go shop, specialty coffee, independent coffee shop and pastry & bakery. The American coffee shop has more aware from American brands, as Starbucks or McCafe, and the Italian coffee chain as the same situation, but with Italian brands, as Segafredo. In case of local coffee chains, it is coffee shops created in Indonesia, with local coffee, that have been growth through opening more than one shop, as for example Upnormal.

When considering the specialty coffee, the specialty coffee shops stand out, where it is served the premium quality coffee only, and one example of that is Tanamera. Coffee with bakery and pastry is also one type of coffee shop, too much considered by Indonesians since served sweet food with the compliment, the coffee. One success

business example is J.Co Donuts already present in other Asian countries. The independent coffee shop type, which has only one shop. At last, a type of coffee shop which grows through the demand and the new channels, the coffee to-go shop, a small coffee shop where consumers buy the coffee and go (e.g. Janji Jiwa) (Toffin, 2020).

This grows from different channels, the traditional coffee shops on the road, the coffee shops inside malls, the convenience stores, as small supermarkets, and through digital applications. The digital channels as SMS, Grab Food/Go food (digital apps for food delivery), Instagram and other social media, creates more interactions with the consumers which drives to more consume of coffee (Nielsen, 2019)

#### **7.4 Consumers / Consumption**

Coffee industry in south and east Asia<sup>2</sup> has been presenting an accelerated growth on consumption with an average annual rate of 6% in the last 25 years. Compared to the world's consumption is higher, since growth on the same indicator and time period is just 2%. This region increased its share in global coffee consumption from 5% to 12% (International Coffee Organization, 2018). Indonesia represent highest value of domestic consumption compare to the exporting countries in the region, it presented a growth of 13,9% with 258 000 ton in 2018/19 to 294 000 ton in 2019/2020.

When considering the market segments on coffee consumption, it is divided in instant or soluble coffee, fresh coffee consumption, and ready to drink (RTD). In 2018, Indonesia presented consumption around 4 million 60kg bags of fresh coffee, with a growth of 144% between 2003 and 2017, and a per capita consumption of more than 1kg per year, also with significant increase of 96% at the same period. About the soluble coffee, it also increased the consumption with 279% more in the period of 2003 to 2017, but with less consumption compare to the fresh coffee, presenting around 0,5 million 60kg bags in 2017 (International Coffee Organization, 2018). It is aligned with the increasing middle class and its growing taste for coffee. (Rahmanulloh & McDonald, 2018).

The coffee customers who driven the growth demand of coffee are the generation Y and Z, the youth population in Indonesia, who looks for value for money coffee, which means, they look for quality coffee but with cheap/affordable price. With the Toffin

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<sup>2</sup> India, Indonesia, Philippines and Vietnam, China, the Republic of Korea and Taiwan



survey it is concluded that around 86% of customers spend 200k IDR per month in leisure at coffee shops.

These customers have distinct profiles types: caffeine addict, social drinker, latte art hunters, milk-coffee lovers, the instant coffee drinkers, the coffee snob, the traditional coffee lovers and manual brew big fan. On these types of coffee drinking habits, the most common are the social drinkers (24,8%), the instant coffee drinkers (22,3%) and the milk-coffee lovers (21,3%). The social drinkers go to the coffee shop to hang out with friends and family while drinking coffee as a beverage. The instant coffee drinkers prefer simple service and cheap price. The milk-coffee lovers like to appreciate the coffee environment while drinking iced sweet coffee (Toffin, 2020).

As incentive to decide to buy coffee highlights important topics to have in consideration, the tasteful coffee with good service, the affordable price and promo existence, coffee shop with a convenient location and diverse menu, have an attractive interior design, and finally a recommendation from friends.

Nowadays, the trends innovations are the flavors variations on coffee milk, which according to Toffin Study<sup>3</sup>, around 60% of coffee customers from generations Y and Z love milk-coffee. It is mostly caused by experience of new taste, the taste suits wells and the high number of discounts on this type of product. The most demanded coffee-milk are the iced coffee-milk palm sugar, but other flavors as cookies & cream, avocado, matcha and yogurt are also the preferred for generations Y and Z. Other Indonesian traditional flavors are also an option, with 85% of customers' ability to try it, being the most preferred the cendol, klepon and es doger.

Besides this innovation, the online purchase through apps, with delivery order, digital payment and new marketing strategies through progressive retail marketing and influencers are new introductions in the market that creates more dynamization.

## **7.5 Competitors/ Benchmark**

According to Google in Toraja regencies exists 38 coffee shops, 20 in North Toraja and 18 in South Toraja. They are considered direct competitors, since they provide a similar service and satisfy the same need as the Saleco Coffee Shop. Although it also exists other few competitors, as for example restaurants, which provides a different service, but with similar experience during the consumption and pretended environment/ design.

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<sup>3</sup> Toffin online survey n=310, Jakarta, october 2019

**Table 1 - Competitors Benchmarking – search criteria**

<b>Search criteria</b>	<b>Direct Competitor</b>	<b>Indirect Competitor</b>
<b>Location</b>	North Toraja and South Toraja, Sulawesi, Indonesia	
<b>Establishment type</b>	Coffee shop	Restaurant
<b>Product served</b>	Coffee	Coffee and Meals
<b>Layout/Design</b>	-	Toraja Inspired

As mentioned in the table above, the mandatory point to be considered as competitor is the location in Toraja and the coffee service. In addition to these characteristics the level of service and customer experience offered is other point of reference to do the benchmark. Into detail, a menu with diverse offer of coffee products, highlight to specialty coffee and its origin.

As benchmark, a direct competitor, Kaana Toraya Coffee Shop, with similar characteristics and differentiation through the fresh specialty coffee and transparent coffee process in store, roasting the coffee beans and brew on the moment to obtain the fresher coffee possible. Besides that, they positioned as fair-trade promotors giving more support to local farmers through a higher price per coffee. The menu is slightly short on choices, focused on the coffee products, from an espresso to a coffee mocha, other soda and some traditional snack food. The average prices of coffee are around 25k IDR, with a minimum price of 15k IDR and maximum of 40k IDR.

As an indirect competitor, the restaurant Cafe Aras, is a considered a player for benchmark and competition since it is highlighted in Toraja as a tourism attraction through its traditional design and decoration made by bamboo and wood, besides the local artwork that can be bought as a souvenir. In addition, it provides an experience more involved in the local culture, with traditional food, coffee and live music performances. The prices on average are higher than the other competitors, since most customers are tourists with greater financial resources, around 80k IDR for meal and 50k IDR for coffee.

## **7.6 Conclusions**

As sum, the external influence factors on the coffee market are positive, creating opportunities and potential to invest on business in coffee industry, coffee shops in more detail. Since the country is growing economically and socially, have the quality resources to be differentiated, and the population are aligned with this development, with behaviors that rise the demand for coffee together with the need of living experiences. Besides that, Indonesian coffee have potential to be a growing point on tourism attraction, as others famous attractions to the world.

## 8 Internal Analysis

The cooperative of coffee farmers in Toraja, called Perhimpunan Petani Kopi Toraja (PPKT) in bahasa Indonesia. It was founded in 2011, in Rantepao, North Toraja.



**Figure 3** - PPKT's logotype

### 8.1 Mission, Vision, Values

PPKT was created with the mission to create more income to coffee farmers, through collective management which allows the aggregation of bargaining power with customers and suppliers, make it possible to shorten the supply chain pulling out the intermediaries, the collectors, and take advantage of the Arabica coffee quality's value. As referred by the head of PPKT cooperative, Thomas Upping *"There are some benefits that farmers have received as cooperative members. First, through collective marketing, farmers sell their coffee to cooperative instead to local traders. Cooperative gives farmers higher prices. Second, members are involved in price-setting processes, so they are well-informed of prices."*

The cooperative has the vision to create more value added to farmers livelihood through a collective management, share of knowledge and new sources of income to growth. PPKT aims to build the identity of Toraja coffee that is grown and processed by farmers from Toraja that benefit from it. Regarding values, the cooperative does not present it.

### 8.2 Organizational Structure

The cooperative is considered as small, with an organizational structure that fits it, to reduce the overhead costs to a minimum. Currently, it is constituted by the management team, which includes 3 employees that execute tasks as executive and operational. These 3 positions are the business manager, quality control and treasurer.

Also exists another position for support on fieldwork as operational, and a supervisory board constituted by other 3 people. The business manager takes account of business management and marketing, with the negotiation and trading with buyers, account of external relations like the Ministry of Home affairs, village empowerment and contacts with agencies for trade, training and new businesses in the industry. Also has the responsibility of drying and grounding process. The quality manager has the

responsibility to control the quality of coffee to be traded in the industry, taking also responsibility to grounding the coffee. The treasurer is the owner of book keeping and recording financial data of delivered parchments and green beans, besides the hulling and roasting process.

Currently, the farmers are 1733 members (75% male, 25% female), constituting 86 groups, located in 32 villages and 8 sub-districts, located in South and North Toraja (Sapan, Pulu'-Pulu', Gasing, Sesean, Kapalapitu, Gandangbatu, Pango-Pango and Perindingan). The plantations are mostly grounded between 1600 and 1700 meters high in Toraja highlands. Each member can harvest per hectare around four tons of coffee per harvest.

### **8.3 Value Chain**

The PPKT supply chain starts on farms' members with the Arabica coffee plantations and production, where occurs the coffee harvest. These coffee beans are hulling by each producer manually, and gathered on a collection point by farmer groups, in order to shorten the chain and be transported to the cooperative in a greater bulk. Each bulk is quantified by its origin, so that is registered each coffee quota given, in order to payback the just amount to each farmer. At PPKT the coffee is washed and dried, where after it can follow three different ways, sold as green bean, roasted or grounded. The green bean is the main source of income, which is sold to other coffee companies in Indonesia, as roasters, manufacturers or coffeeshops. When the green beans are defected, it is just marketed locally in Toraja in form of green bean, roasted or grounded. In case of quantities less than 1 kg, the coffee is branded as Saleco Coffee.

#### **Saleco Coffee**

Saleco coffee is the brand created by PPKT cooperative of coffee from Toraja. The name has origin on local language for Torajan most expensive and high-quality spotted buffalos, which has high significance to the local culture. It is a brand positioned as a specialty arabica coffee with single origin on pack, with an offer from 8 origins from the different coffee producing sub-districts, with an average specialty coffee score between 84% and 89%. The portfolio includes coffee as green bean, roasted or grounded, with simple packaging with logo and origin indication on front label, and on back label is presented some information about the Saleco coffee, due date, grammage, coffee treatment process (usually washed) and type of roasting (light, medium or dark) (Annex

D). The formats differ between 150gr, 200gr, 500gr and 1kg. The Saleco prices are valued based on the quality coffee of each harvest, estimated around 60k IDR per 200gr pack of grounded coffee, slightly above of PPKT coffee prices without the branding, since it is included the packaging. The PPKT coffee prices table is presented in Table 2.

**Table 2** - Coffee Arabica prices per Kg

Coffee	Specialty Arabica	Deffected Arabica
Green Bean	115 000 IDR	40 000 IDR
Roasted	235 000 IDR	85 000 IDR
Grounded	240 000 IDR	90 000 IDR

Saleco is sold to other companies and final customer, both in the same channel, the cooperative establishment or local fairs where PPKT is present with a booth. In case of other businesses, the coffee is bought in order to be sold as fresh coffee in coffeeshops or other food establishment, or in digital channels, as marketplaces.

Currently, the brand has communication on local fairs with some merchandising, word of mouth through local people, and digital platforms as Facebook page.

#### **8.4 Financial Situation**

PPKT's financial situation is considered slightly instable, according to the annual results on the analyzed periods of 2016 to 2019, presented on the graph 1 and Annex E. The cooperative presented an increase on profit of 81% compared 2017 to 2016, and 216% compared 2018 with 2017, although on the following year occurs a significant of - 274% compared 2019 with 2018. The highest profit's result was 330 million IDR in 2018, in contrast to 2019 with a loss of around 575 million IDR.

These annual results vary due to the different quantity of coffee harvested per year, since the coffee plants does not grow with the same efficiency every year, besides the climate differences. The major source of income are the sales of coffee green bean to other companies, around 78% on average (2017-2019) which are the same source with highest loss, the coffee purchase to members, also around 77% on average of total costs.

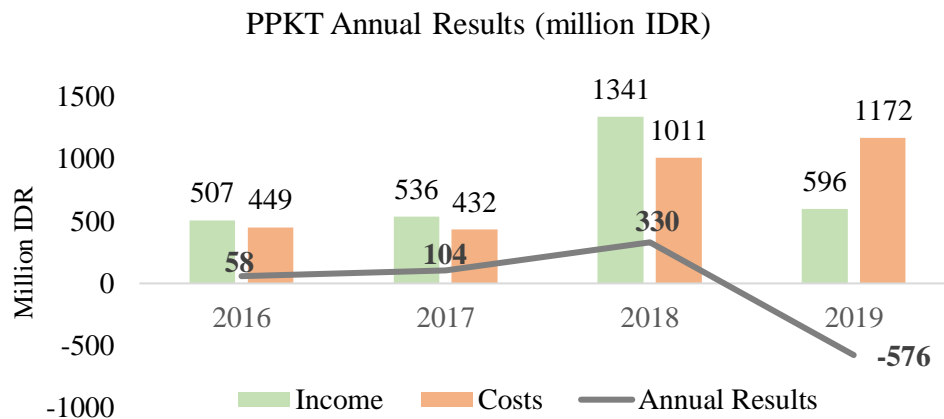
The other source of growing revenue are the sales of coffee beans with defect (due to similar characteristics on flavor and final quality coffee, some clients prefer to pay this type of coffee with a cheaper price). PPKT new members pays a quota to the cooperative.

The other sources of costs are the monthly salaries and returns receivables to the members. The payment of coffee to the farmers is done according to the PPKT financial

capabilities in the moment of trade, although the cooperative and the members have a commitment of pay every transaction until the end of December of the current year.

In 2019, was over produced coffee, and the coffee supply was more than the capacity to sell it, per consequence the cooperative needed to pay to the members the accorded price, obtaining a negative result in the end of the year, as presented in the graph 1.

**Graph 1 - Annual Results of PPKT Profit and Loss (2016 to 2019)**



Source: PPKT

## 8.5 Conclusions

The cooperative has the potential to obtain the best specialty coffee in the region, since it works with a wide range of farmers from different sub-districts in Toraja and they prioritize the trade with the cooperative, seeing more benefits on that. This situation makes PPKT able to define the quantities of coffee that pretends to buy for each year. It needs to be well forecasted according to the historic sales, capacity and the expectations of sales in the future year.

The negative results in 2019 with overproduction and the current situation with the Covid-19 creates an instable prediction of future performance. The cooperative needs more liquidity through the sales of coffee or new services related to the industry, making them able to react to the situation.

## 9 Global evaluation

As a supplement to the previous chapters' analysis, that aims to finalize the diagnostic phase, this chapter explains the key elements from it, in order to define the priorities.

### 9.1 SWOT

As result of prisonization based on a list of opportunities, threats, strength, weaknesses referred on (Annex F).

**Table 3 - SWOT Analysis**

<p><b>Strengths</b></p> <ul style="list-style-type: none"> <li>-Vertical integration on coffee supply with harvesting, sorting, roasting, grinding and labeling process;</li> <li>-Produces specialty Arabica coffee, the most valued coffee and GI certified in Toraja;</li> <li>-Knowledge on coffee industry shared between members and trainings with coffee experts;</li> <li>-Good relations with members, local population and government.</li> </ul>	<p><b>Weaknesses</b></p> <ul style="list-style-type: none"> <li>- Low profit business (the major income comes from GBE sales);</li> <li>-Short human resources in team for dealing with day-today tasks and management/strategy of a new business category;</li> <li>-Unpredicted availability of quality coffee from 8 single origins;</li> <li>-Saleco brand awareness is weak (offline and online).</li> </ul>
<p><b>Opportunities</b></p> <ul style="list-style-type: none"> <li>-Coffee consumption growth in Indonesia;</li> <li>-Increase demand for specialty coffee;</li> <li>-Existence of a Geographical Indicator for Torajan Coffee "Coffee Arabica Toraja";</li> <li>-Toraja is one of the main tourism attractions in South Sulawesi contributing to tourism growth.</li> </ul>	<p><b>Threats</b></p> <ul style="list-style-type: none"> <li>-Coffee culture is more correlated with urban lifestyle rather than rural lifestyle;</li> <li>-Potential customers are mostly from Indonesia, with low power purchase;</li> <li>- Lack of good access and transportation;</li> <li>-Local Government has volatile influence through relations with Torajan people and projects.</li> </ul>

Source: Own elaboration

## 9.2 Dynamic SWOT

The dynamic SWOT is a cross SWOT based on the internal structure and external elements in the market which identifies the actions to take into consideration while facing this challenges, alerts, constraints and dangers.

**Table 4 - Cross SWOT Analysis – Strengths and Weakness vs Opportunities**

	Threats			
	Coffee culture is more correlated with urban lifestyle rather than rural lifestyle	Local Government can have direct influence in businesses through local projects and planning	Lack of access and transportation to Toraja Regencies	Potential customers are mostly from Indonesia, with low power purchase
<b>Strengths</b>				
Vertical Integration on coffee supply with harvesting, sorting, roasting, grinding and labeling process	Create an offering that take advantage of coffee supply integration in rural area and usual services present at an urban coffee shop	Improve livelihood of the population with more income and employment	Integrated Coffee tours with Visits, experimentation and transport	Guarantee fair prices of specialty coffee through the chain to allow affordable prices at coffee shop
Produces specialty Arabica coffee, the most valued coffee and GI certified in Toraja	Serve specialty coffee with some similarities with offering provided in city areas coffee shops (e.g. ready to drink coffee, digital payment)	Promote specialty coffee from Toraja to highlight the region	Encourage customers to visit the region promoting the value opportunity on the visit	
Knowledge on coffee industry shared between members and trainings with coffee experts	Demonstrate the differentiation of knowledge on coffee industry to obtain the best quality coffee	Ensure coffee quality to guarantee a positive perception about Torajan coffee		Optimize the coffee processes to obtain the most affordable prices possible
Good relations with members, local population and government	Create loyalty program with local customers	Maintain the good relationship through helpful presence, availability, and transperance	Share the word to aggregate the demand and facilitate the transportation	Promote between local people the value added on Saleco coffee, to attract customers
<b>Weaknesses</b>				
Low profit margins business (the major income comes from GBE sales)	Provide an offering with a higher value perception that aggregates the urban and rural lifestyle, therefore increasing profit margins	Study the necessary processes to obtain public investment in food services / tourism and create guidelines that facilitate access to it.	Create coffee tours to aggregate the transportation demand	Implement affordable prices with margins to support the business
Short human resources to deal with day-to-day tasks and management/strategy of a new business category;	Training about management and strategy on coffee shop business	Increase the local employment and dynamize the region		
Unpredicted availability of quality coffee from 8 single origins	Offer diversity coffee on menu to suit the different customer needs	Guarantee positive appearance about Toraja coffee quality		Create a menu with different price ranges to take advantage of single origin value and respond to customers with less financial capabilities
Saleco brand awareness still weak (offline and online);	Associate brand values to coffee culture engagement	Create a brand value proposition associated to the improvement of Toraja	Sponsor the transport and tours with Saleco	Define Saleco as value for money brand



**Table 5 - Cross SWOT Analysis – Strengths and Weakness vs Threats**

	Opportunities			
	Coffee consumption growth in Indonesia	Increase demand for specialty coffee	Existence of a Geographical Indicator for Torajan Coffee "Coffee Arabica Toraja"	Toraja is one of the main tourism attractions in South Sulawesi contributing to growth.
Strengths				
Vertical Integration on coffee supply with harvesting, sorting, roasting, grinding and labeling process;	Open a coffee shop	Guarantee differentiated offer of specialty coffee at coffee shop	Use the label on brand communication channels (digital, place, pack)	Create a new attraction for tourists, through visit all the coffee process (Coffee tourism)
Produces specialty Arabica coffee, the most valued coffee and GI certified in Toraja;	Sell Toraja specialty Coffee at a coffee shop			Promote Toraja specialty coffee as a motive of tourism attraction
Knowledge on coffee industry shared between members and trainings with coffee experts;		Participate in more trainings with SCAI to improve technic with specialty coffee processes	Associate the coffee origin to a historical knowledge of work with "Coffee Arabica Toraja"	Show to tourists the coffee production process from the plantations to the cup of coffee
Good relations with members, local population and government.	Attract customers through partnerships with local business (e.g. Hotel)	Share the quality about specialty coffee for Saleco with these close stakeholders		Create coffee tours with local and government promotion
Weaknesses				
Low profit margins business (the major income comes from GBE sales)	Optimize the coffee sales/efforts on production according to greater income	Optimize the coffee sales according to greater income on specialty coffee	Promote the added value from GI on coffee and study the price increase based on this	Creates new income opportunities through tourism services
Short human resources to deal with day-to-day tasks and management/strategy of a new business category;	Contract new employees focused on coffee service	Train the current and future employees on specialty coffee service	Use the coffee Toraja Awareness to attract greater professionals on coffee service	Train cooperative members (farmers) to be tourists guides on this farms and coffee related places
Unpredicted availability of quality coffee from 8 single origins	Take advantage of this demand selling quality coffee with higher value		Aggregates the value added from single origin coffee and Coffee Toraja GI	Explore que diverse single origins from its plantations
Saleco brand awareness still weak (offline and online);	Promote the brand offline and online	Associate the brand promotion to Toraja specialty Arabica coffee		Promote the brand associating the coffee to Toraja attraction

Coffee Shop	PPKT Improvements	Coffee Tourism	Brand	Region Promotion	Training	Employment
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**Table subtitle: Group of actions to define strategic guidelines**

### 9.3 Key Success Factors

Regarding key factors to have a succeed business in the market is necessary to take in account the combination of two elements, the consumer characteristics, and the market competitive offer. In coffee shops business the identified key success factors based on these elements are the following:

- **Portfolio diversification** – with coffee offers to satisfy a large segment of consumers and attract new customers;
- **Innovation** – create or adapt new coffee trends on products, techniques or experiences, to guarantee consumers attraction and its frequency;
- **Affordable prices** – the coffee shops should implement value for money strategy prices, with affordable prices, to attract a large segment of consumers;
- **Strategic location** – a location where the potential customers would go for convenience reasons or a place with perceived value;
- **Smart marketing strategy** – connect to customers through brand and product promotion on the right platforms with the effective elements, such as the influence marketing, social media active presence and price discounts;
- **Multichannel sales** – the coffee sales should be effective through physical place, as coffee shop and online platforms (as digital apps for food delivery as Grab or Go Jek, google business, website, social media).

### 9.4 Competitive Advantages

The advantages on a business compared to its competitors in the market are sustained by the better way to explore the business activities or the less costs in working on that, while attending the consumer demand and pair the market competition.

Considering these aspects, the coffee shop should consider its competencies and resources to be competitive in the market and distinguish itself. In order to conclude which are the Saleco coffee shop's competitive advantages, it is necessary to identify its strategic capabilities, threshold resources, threshold competencies, unique resources, core competencies, and finally its sustainability.

**Table 6** - Identification of Saleco business' resources and competencies

<b>Term</b>	<b>Existent (E)</b>	<b>To Create (C)</b>
<b>Strategic Capability</b>	E1 - Production and sales of Arabica coffee from Toraja	C1- Farmers with competencies to welcoming farm's visits (English speakers)
<b>Threshold Resources</b>	E2- Cooperative office / manufacturer E3- Coffee roasters and grinders;	C2- Central location in the city of Rantepao;
<b>Threshold Competencies</b>	E4- Sort the quality coffee manually; E5- Knowledge to roast the coffee;	C3- Management capability to succeed a business to consumer business;
<b>Unique Resources</b>	E6- Diverse single origins of coffee; E7- Own good landscape on coffee farms; E8- Coffee farmers storytelling; E9- Integrated supply chain being capable to obtain coffee on every final product pretended;	C4- Coffee shop with unique Torajan decoration integrating a comfort, design and culture; C5- Barista specialized in Toraja coffee; C6- Coffee machine to serve coffee differentiated by the quality and diversity;
<b>Core Competencies</b>	E10- Knowledge to manage the coffee quality in all the coffee process; E11- Familiar and welcoming environment between local population, evolving customers on culture;	C7- Personalized service according to coffee preferences; C8- Diversified portfolio, but focused on specialty coffee;

#### 9.4.1 VRIO Analysis

Based on identified competencies and resources as already existent in PPKT and possible to create in order to take advantage in competition. The sustainability of this competitive advantages, according to Barney and Hesterly (2005) should be Valious, Rare, hard to Imitable and explored by Organization.

Considering VRIO model with the test validation of sustained competitive advantages (Annex G), the Saleco coffee shop's competitive advantages are identified as (E1, E5, E6, and E9) related with the integrated supply chain of coffee, which is the base of knowledge about all the procedures to obtain the best quality coffee, as roasting and allows to be the producer, roaster and seller at the coffee shop with elasticity to react to the market demand. Also, the production of coffee from eight single origins in Toraja is a point that creates a bigger portfolio offer and different farming places with good landscapes to be visited.



## **10 Strategic Guidelines and planned objectives**

Once complete the diagnostic phase, the guidelines aim to guide the strategy for the business solution, developed in the next chapters. These strategic guidelines are the following:

- Create a coffee shop integrated in the cooperative of coffee farmers – this shop aims to complete the supply chain owned by PPKT, increasing the business position in the market as the profits from the coffee sales;
- Improve the livelihood of coffee farmers – since the farmers are part of the cooperative, and without them the business would not run with lack of sources. It is fair to contribute more to their living income and knowledge;
- Exploitation of activities associated with coffee tourism – Toraja is one of the main tourism attractions in Sulawesi, with potential to invest on one of the key resources that is known for, the coffee.

## **11 Development Strategy**

The process of creating a company's strategy consists in five stages linked between them, starting by developing a strategic vision to guide in a long-term direction, the mission statement to describes the company's purpose and the core values to guide on mission and vision application. Secondly, set the company's objectives to measure the performance and track the company's evolution, followed by the crafting of a strategy where it is elaborated the path to achieve the strategic objectives. Fourth stage is the executing of strategy efficiently and effectively, finalized by the monitoring and evaluation of performance, and corrective adjustments on strategy, if needed. These first three stages schematize the strategic plan as presented in the Annex H (Thompson, Strickland, & Gamble, 2007).

### **11.1 Vision, Mission and Values**

PPKT's vision and mission mentioned above should also be integrated on Saleco Coffee Shop strategy, since is an integrated business in the cooperative. Saleco's has the aspiration to be an attraction driver in Toraja region, based on its specialty Torajan coffee and the experience evolved, while sharing the coffee industry reality.

Creating the long-term driver, the suggested vision: *“to be The attraction in Toraja as the specialty coffee experts, that involves the consumers in their reality and creates memorable experiences”*.

The mission that demonstrates the Saleco’s coffee shop purpose is: *“to share knowledge and humanity from the plantation to a cup of Toraja specialty coffee”*

The core values that will guide the business actions are:

- Being transparent in everything we do – to promote trust and commitment with the stakeholders and employees;
- Delivering the best quality on all we do – to provide quality on products and services, as also the experience;
- Focusing on our authenticity, we create more value – to create an authentic environment where people perceive value;
- Working in a team we exceed our results – to work in a help and sharing environment, obtaining a better performance.

## 11.2 Objectives

**Table 7 - Business plan objectives**

<b>Strategic guidelines</b>	<b>Objectives</b>
Create a coffee shop integrated in the cooperative of coffee farmers;	<ul style="list-style-type: none"> <li>- Open the coffee shop business in 2022;</li> <li>- Attract 12 900 customers on the first full year and increase the visits 5% per year, on the first 3 years;</li> <li>- Increase Saleco sales in 6% (package)</li> <li>- Increase Saleco brand awareness through offline and online channels;</li> </ul>
Improve the livelihood of coffee farmers;	<ul style="list-style-type: none"> <li>- Develop trainings about barista skills, tourist guides and English language;</li> <li>- Create more 5 job positions;</li> <li>- Increase coffee farmers annual income, through coffee shop sales incentives with a distribution of 25 million IDR and 10 million IDR from coffee tours guidance, in 2023;</li> </ul>
Exploitation of activities associated with coffee tourism;	<ul style="list-style-type: none"> <li>- Sell a minimum of 48 coffee tours annually;</li> <li>- Associate coffee tourism as part of touristic attractions in Toraja;</li> <li>- Create 5 partnerships with local businesses;</li> </ul>

### 11.3 Strategy Definition

At a corporate level, PPKT as a cooperative operates in multiple businesses along the coffee industry, which allows the internal development of a strategy focused on vertical integration. Capturing the synergies from the already existent backward vertical integration and finalizing the integration with a Saleco coffee shop.

At the business level the Saleco strategy is based on a best cost provider strategy, taking in consideration the pretended market target focused on a niche of tourists and local coffee lovers. A target with distinct financial capabilities, and for that, the hybrid strategy that blends low-cost provider and differentiation strategies, satisfying buyers expectations. This strategy pretends to give more *value for the money*.

As a functional level, the marketing strategy is conceptualized as a competitive strategy to gain market from other products and coffee shops already existent in Toraja focused on local customers. Also, with a development of an extensive strategy to target the niche customers with interest about coffee tourism and the experience involved.

#### 11.3.1 Segmentation and targeting

In order to define an effective strategy that adapt the organization decisions, the market is segmented in sets with similar behaviors, needs and characteristics, that help to guide the marketing policies and argue its differences (Lendrevie et al., 2015). As mentioned before exists two segmented targets to attract and participate in the coffee shop business, the local coffee consumers and Toraja's tourists. The strategy of having two targets are justified on the seasonality of tourism in Toraja, creating a gap on the sales frequency along the year. With a strategy also directed to local consumers it is possible to guarantee a profitable business.

The segmentation is elaborated based on criteria with pertinence, measurability and with operational value, which in this case are geographic, demographic, socio-economic and behavioral.

**Table 8 - Segmentation criteria and target - local consumers**

<b>Criteria</b>	<b>Target</b>
Geographic	- Live in Toraja Region (North Toraja or South Toraja) and boarder regencies;
Demographic	- 18 to 39 years old;
Socio-economic	- Students and employed as occupation, with medium to high power purchase;
Behavioral	- Appreciates coffee drinking with quality in convenient location with good decoration and environment;
Dimension	- 57 063 people (Annex I)

**Table 9 - Segmentation criteria and target - Toraja's Tourists**

<b>Criteria</b>	<b>Target</b>
Geographic	- Lives in urban places in Indonesia and other countries where coffee culture as experience is significant as USA, Australia, Japan, Italy, UK and France (de Vasconcelos Teixeira, 2019); - Lives in countries with interest in Toraja tourism, (e.g. France). It represented 12,4% of total foreigner's visitors in Toraja (BPS, 2018);
Demographic	- 35 to 65 years old;
Socio-economic	- Employed with high power purchase to invest on leisure and tourism;
Behavioral	- Interest on coffee industry; - Enjoy the coffee experience, including the inherent process of coffee production until the coffee cup tasting.
Dimension	- 213 979 people (Annex I)

The coffee consumers in Toraja and boarder regencies has a young profile who valued a quality coffee for an affordable price and appreciates a good experience while goes to the coffee shop to drink and socialize with friends. In case of Toraja tourists, they have an older profile from urban areas in Indonesia and from foreigner countries, as most tourists in the region. Who valued a new experience especially around the Torajan resources, in this case the special coffee and are able to pay premium prices, since they detain higher financial capabilities.

Besides the differences on targets, both segments have in common the need and interest about coffee, which makes easier to aggregate some communication and value driven on Saleco's strategy. According to the questionnaire people in rural areas in Indonesia (representing Torajan consumers) are 71% willing to experience coffee Toraja and potential Toraja tourists who live in urban areas are 69% willing to experience it too.



### 11.3.2 Positioning

The pretended perception about Saleco's coffee is defined in the positioning. It is composed by two perspectives, the identification of market group in which operates, and the differentiation from the competitors in the same market group.

**Table 10** - Saleco's positioning - identification and differentiation

<b>Identification</b>	- Specialty coffee shop industry; - Coffee tourism services.
<b>Differentiation</b>	- Coffee shop with Toraja Specialty coffee that enhances the knowledge through experiences about coffee industry/reality in Toraja; - Creates experiences showing the process from the plantations to the cup.

The positioning basis take in account three perspectives that helps to differentiate the Saleco's marketing strategy, which is the consumers expectations while visiting a coffee shop, the competitors positioning and potential benefits of the Saleco's solution. These three perspectives complete the Golden Triangle.

#### **Consumers Expectations**

As studied in the survey and diagnosis in the previous chapters, the coffee consumers expect to have specialty coffee with affordable prices in a convenient location, good aesthetics and a friendly service. For consumers is relevant the quality of coffee and expect to try the best coffee (specialty coffee), in different ways from the Toraja region.

#### **Competitors positioning**

Coffee shops in Toraja offers a simplistic environment and aesthetics to socialize and drink coffee. It is mostly located in the city, which is convenient for consumers. The main competitor, Kaana Toraya Coffee is positioned as Toraja coffee experts who sells quality coffee with affordable prices while helps farmers with a fair-trade transaction.

#### **Potential benefits of solution**

Saleco's coffee shop provides a differentiated specialty coffee from Toraja. Integrates a full experience on consumption and knowledge around coffee. It sells specialty coffee from the origin with scores between 84% and 89%, from 8 single origins, presenting diversity on coffee portfolio and serving options. It is focused on region improvement through the coffee, creating more income to farmers and a new attraction to Toraja.

The pretended Saleco's positioning according to these dimensions is formulated as the following: *“Toraja Specialty coffee: the origin of a quality coffee is more than a place”*

## 12 Operational Plan: Marketing-Mix

Since Saleco's coffee shop is a hybrid service which sells goods and services, the marketing-mix includes the 7P's marketing variables with the universal product, price, place and promotion, and the extra variables relative to the services - process, physical evidence and people.

### 12.1 Service and Product

#### 12.1.1 Concept

Saleco's coffee shop pretend to be a specialty coffee shop located in Toraja in Indonesia with the purpose of level up the specialty quality coffee from Toraja highlands. Being a brand created by a cooperative of Toraja coffee farmers, the concept of this business aims to complete the integration of coffee supply, adding value to the brand, that is only existent as physical product without a consistent channel to sell it. A project implemented by a collective management in the coffee industry with experience and expertise in the area. It pretends to perform on two components based on full coffee experience: the consumption at the coffee shop which can be as a coffee drink or a pack of ground/roasted coffee to take away home, or coffee tours experiences and other activities to learn more about specialty coffee. Both purpose to the consumers living a memorable experience related to coffee from the plantations to the cupping, while creates positive impacts on coffee farmers lives, financially and socially.

#### 12.1.2 Brand

As referred in previous chapters, Saleco is the marketed brand of coffee produced by PPKT cooperative of coffee farmers in Toraja, with name origin from the traditional and valued Bufallos in the Toraja culture. Which is also the brand symbol together with the traditional wood carving. The logo is simple with a text bold "SALECO" and description associated "Specialty Arabica Toraja original coffee".

The branding colors are red, white and black, associated to a premium quality brand, related to the specialty coffee.



**Figure 4 - Saleco's logotype**

The brand is associated to the origin from Toraja, with the geographic indicator and single origin indication. Also, with the labeling promoted by Indonesian origin products “100% Indonesia” that adds more value to the product.

### **12.1.3 Product levels**

According to (Kotler & Armstrong, 2012) the product planning should rely with three levels, the core customer value answering what customer is really buying, the actual product answering what is the benefit into the product or service and the augmented product which add to the service or product additional benefits or services.

#### **Core customer value:**

The core product in the coffee shop will be the specialty Arabica coffee from Toraja. Consumers will buy coffee served in different ways, brewed, espresso or packaged.

#### **Actual product:**

The coffee shop experience includes the consumption of specialty coffee from Toraja. A coffee served to contribute to energy seeking and enjoyable leisure moment.

A complete experience where consumers buy coffee, other beverages and light meals, while having a leisure moment with comfort, a friendly environment created by the people and physical evidences as good decoration and layout. A place where coffee lovers frequent taking benefit from quality coffee and the convenient location.

The product variety will be focused on the 8 single origins of coffee in Toraja, demonstrating the different tasting notes between them, as the quality inherent on the single origin coffee process. Brewed coffee and espresso are the key product, although it will also serve other coffee beverages as lattes, tea and light snacks as bakery and typical Indonesian snacks.

Besides the product served, the coffee shop will be also a place for retailing the coffee packaged to take away home, with a variety of ground coffee and roasted coffee from the 8 single origins. The pack formats are 200gr and 500gr.

#### **Augmented product:**

The additional services to the actual product will be a way to add value to the niche of people who have high interest on specialty coffee and pretends to invest on it. An attraction motive to visit Toraja and the Saleco coffee shop as a Toraja specialty coffee experts. These services to add experience value are the following:

- Coffee tours - It is a of activities related to coffee and its background, that teach and enhance the participants with a complete experience about coffee, since the plantations in the mountains to tasting of coffee in the Saleco coffee shop. It has the goal of create a new tourism attraction, with a lighter appeal and increase the awareness about the coffee form that place in Indonesia and worldwide.

The coffee tours will be programed with five main steps as basis, supported by the data obtained in the questionnaire, which concludes as the main elements by order to make the tourists do a coffee tour: experience different coffee drinks, explore the culture of destination, drink specialty coffee, explore plantations landscape and learn how to produce coffee.

This tour can be suitable with the coffee production season and added other steps as cultural visits or transportation to Toraja included, adapted to the participant's needs. These steps are:

- Visit coffee plantations – see how the coffee plants are and learn with the farmers about its history while enjoy the landscape in the mountains;

- Visit the coffee process – at the cooperative where the coffee is processed, since the hulling, to dry, to sorting, roasting and packaged;

- Roasting coffee – at the coffee shop will have a roaster where the participants can learn the basis of how to roast the coffee and its differences;

- Cupping – learn basis about the correct way of cupping specialty coffee taking advantage of its properties, which will be done in co-creation with the barista;

- Tasting – drink and taste the coffee from the different single origins and roasting levels.

- Co-Creation – consists in a service where the coffee consumers participate on coffee cup preparation, since roasting method (light, medium or dark), brewing the specialty coffee and cupping.

- Tasting Coffee – consists in an experience for consumers to try the different coffee origins and cupping methods, evaluating the taste, aroma, smell and body. With a diverse products experimentation. It provides a higher knowledge about the characterization of each single coffee.

- Workshops – as a specialty coffee expert that aims to share the coffee knowledges, it will provide a service of workshops related with specialty coffee process, brewing and cupping.

## 12.2 Price

The business will implement a *customer-value based* pricing strategy, which is based on buyers' perceptions of value, rather than on Saleco business's costs. Since this business evolves an experience that is more than a product or basic service, the price setting will be affordable premium.

As identified in the online questionnaire, the consumers consider the affordable prices at a coffee shop a significant factor to choose the coffee place. Indonesian coffee consumers on average spend at a coffee shop 27k IDR in case of rural areas and 41k IDR in urban areas. The international consumers spend on average around 52k IDR per ticket. Also, competition implements prices that ranges on average between 15k IDR and 50k IDR for a cup of coffee. Taking this into consideration, Saleco coffee shop will based the menu with affordable prices that ranges between 25k IDR and 50k IDR for a cup of coffee. It includes premium price from the value of specialty coffee which is higher than usual coffee. This premium price value is a fair and transparent pricing, that remains to the quality of coffee. It helps to improve the coffee farmers livelihood, referred as a strategic guideline. This price is still considered as affordable, to be aligned with the local consumers expectation prices. In case of Toraja's tourists, they are willing to pay more and recognize higher value than the stipulated on the prices table. They can purchase the products and services with highest value in the menu and pay a tip with the assurance of where it goes the money.

The prices of coffee packages will remain the same, already referred on the chapter 8, with the same strategy of *value for money*.

Considering the services as the coffee tours, co-creation, tasting and workshops the pricing strategy is equal, *customer-value based*. The target for these services is a niche, that recognize value on this, being willing to pay higher prices for what they experience. This allows to consider higher prices for these kinds of services, beginning on 200k IDR to 700k IDR per person, as presented in detail on the Annex O. This prices also takes into account the price of other general touristic tours in the region.

Since the price is the easiest variable in the marketing strategy to change in short-term. The pricing change that create positive impact on consumers with higher penetration results is the promotions cashback on digital payments as for example the GoPay (GoJek app) or Ovo (Grab app) frequently used by youth consumers for food delivery and ride hailing.

### **12.3 Place**

The coffee shop will provide a place to buy coffee in different final product stages: drink, roasted or grounded. Attached to that, it is the services that will be a place for experience and learn more about coffee industry, especially in Toraja, Indonesia.

As purpose to complete the PPKT value chain with a retail and service space to interact directly to consumer, Saleco will use this advantage to provide a unique experience to the coffee lovers. Aligned with the distribution of that experience that is selective. It is a unique place localized in Toraja, the source of the memorable aspects that complete the coffee experience. The location will be in the city of Rantepao in Toraja, with the convenience valued by consumers according to survey. Preferably with a Torajan landscape on surroundings.

Saleco coffee experience is selective. Although, the purpose of increasing the accessibility and notoriety of Saleco coffee requires more channels to sell the final product. For that reason, the Saleco coffee as grounded or roasted will be sold in marketplaces specially used in Asia, as Shopee, Bukalapak and Tokopedia, with the delivery fee associated to the packages provided on these channels.

The assortment will be made up only on the key products of Saleco coffee available with varieties of origin, roasting level and process used. Both in the coffee service as well as in the packaged product.

### **12.4 Promotion**

Saleco will implement an integrated communication strategy to achieve superior communication effectiveness. Planning the pretended objectives with each action to the both target segments already defined in previous chapters. These actions will take in consideration the metrics measures to be easier to manage the brand and business communication in long term. It will help to transmit a consistent message for a brand with an effective positioning in the market. Since Saleco is already in coffee market but with weak notoriety.

This promotions strategy will be divided into two plans for both targets with a push and pull strategies, considering a low budget adequate to PPKT financial capability. As a push marketing strategy, it will use POS materials in store and attractive packaging. For pull marketing strategy it will use digital advertising, promotions and word of mouth.

The presence on digital channels to promote Saleco is a significant part of the strategy, since Toraja is still a region in development on its national and international

awareness and this channel is a bridge to the people know more about place and brand, creating a relation of trust. The online evidences are a proof of the business existence and assure the consumers about its characteristics and arguments to be a motive of attraction in the region.

The brand communication will prioritize the English language, since one of the targets are international and this language is universally understood. It will double communicate in English and Bahasa Indonesia to reach both targets, international and national consumers, when necessary. Even though, local consumers target is young and mostly understand the English language.

## **12.5 Process**

Service process activity can be viewed as an activity or an output of a system (Kotler et al., 2009). In case of Saleco coffee shop, the output pretends to be the most transparent and visible to the customer in order to be didactic about the industry and to build a trust relation with a satisfactory outcome.

The service blueprint is designed with all the process stages at frontstage, visible to the customer, since at the coffee shop it is prepared the coffee from the roasting machine, to the coffee preparation machines, the barista execution on the service and the delivery to the table or customer hands. The forward processes can be seen through the coffee tours, where the participants can understand how the Saleco supply chain runs. From the first part of operation to the final product, it creates an experience along the process.

The customer satisfaction will be a priority, customizing the service with the best quality possible to be perceived by the customers. This service quality will have two dimensions, the technical and the functional. The technical will be related with the quality of specialty coffee served and the additional services or products. The functional is related with the way that a service will be provide. In this case is customized to the customer with the employee's dedication and on the expected timing.

About the additional services as coffee tours and workshops, the process of reservation can be executed online on the website or email, guaranteeing the participation and the minimum requirements to participate. For example the number of participants that should be more than 10 people.



## 12.6 Physical Evidence

The Saleco experience in the coffee shop is significantly influenced by the physical evidences in the space. The layout setting where the service is simultaneously produced and consumed actuate on the customer's service experience and on the branding perception.

From the inspiration of the name 'Saleco' that is related with the white buffalo and the high relevance that has on Toraja tribal culture, the physical evidences will be inspired on it and highlight the key product, the coffee.

In order to create the most complete experience that evidences these referred aspects, the strategy will be based on the five senses - sight, sound, touch, taste and smell.

**Sight:** The sight is related to how the consumers see service, environment and interior design. Whereby the shop will have a space with details that are relate with the Toraja culture and branding concept, highlighting the coffee presence.

A design constituted by white colors on walls and painted wood on seats and tables, with the details from the traditional Torajan art carving in wood in the objects for service and walls. Additionally, to that the traditional textile and patterns will be present on the seat's pillows and uniforms with the red tones from Saleco branding. With a decoration and environment with almost everything colored with white, it will emphasize the small details related to the origins, service and the coffee. The natural lighting is another important element that creates a positive impact on the experience.

These evidences are differentiated from the competition that use a layout design very dark and with wood tones. Besides that, the light colors are also associated to the pretend strategy of creating a new attraction to Toraja tourism with an analogy from the lighter appeal, comparing the usual tourism highly associated to the dead people.

**Sound:** The background sound in the coffee shop will be created with music and slow songs to relate the consumers with the experience that takes time to enjoy. Other background sound that will be present is the coffee preparation with the equipment that is recognized in this kind of service environment.

**Touch:** The ability to touch makes the consumers to feel more the experience. For that reason, Saleco coffee shop will provide services of co-creation of coffee preparation. Where the consumers can touch on coffee and recognize the characteristics by themselves.

The seats and tables will be constituted as much comfort as possible, creating a good incentive to spend more time in the coffee shop and level up the satisfaction.

**Taste:** It is a sense with high importance for coffee lovers and experts, being a relevant part on coffee evaluation where is possible to enjoy the drink and take taste notes from the coffee quality.

Saleco will sell the tasting service to create the opportunity of consumers to try the different tastes of coffee.

**Smell:** The coffee smell will be a constant presence in the shop, relating the consumers to the experience. It creates an ambience related to the product, encouraging the consumer to purchase the coffee. It is other element important to evaluate the coffee quality which advantage from its specialty quality.

## **12.7 People**

The staff are the key participants in the business development being the face of Saleco company, responsible to give to the customers the most satisfactory and complete experience. These people include the baristas and servers, as the farmers and guides that will share the coffee knowledge and the storytelling about the brand and coffee industry in Toraja. The friendly attitude of Indonesian people is taken for granted, although the staff will need to be trained to serve in a homogeny way, guaranteeing a consistent service branding. Part of these trainings are related with the barista service and the communication with the customer.

The customers are part of the evolving business and another element that influences the experience, from customer to customer interactions, creating potential networks and positive or negative reviews about the services. As personas of the targets, the international tourists are a motif of potential attraction for locals to visit the same place as foreigners. Since in rural places in Indonesia most of the people never saw foreigners.

The co-creation of service is a way to crate relations and interactions between the staff, the brand and the customers, where it is shared and learned the process of working with coffee.

### 13 Business Model Canvas

Business model is the way in which an organization creates, offers and gains value. The Canvas model serves to visualize and create a logic on which the business model will be based, summing up the business components.

**Table 11-** Saleco coffee shop Business Model Canvas

<b>Key Partners</b> - Coffee farmers - Food outlets - Specialty Coffee Arabica Indonesia (SCAI) - Government - Tourism Agencies/ Establishments	<b>Key Activities</b> - Coffee production, processing and roasting - Coffee service - Coffee packaged selling - Coffee tours, workshops and co-creation activities	<b>Value Proposition</b> - Toraja specialty coffee - Customer interaction with coffee experience through the value chain from coffee plantations to cupping - Knowledge sharing about coffee processing and quality	<b>Customer Relationships</b> - Experiential service - Social media - Community	<b>Customer Segments</b> - Local coffee consumers - Toraja's tourists
	<b>Key Resources</b> <i>Tangible</i> - Specialty Coffee - Food and supplies - Equipment - Coffee plantation - Land and building (shop and cooperative) - Human Resources - Financial Resources <i>Intangible</i> - Know-how to produce, process and serve specialty coffee - Brand		<b>Channels</b> -Direct sales force - Website - Marketplaces (Tokopedia, Bukalapak, Shopee)	
<b>Cost Structure</b> - Purchase of raw material and supplies - Salary labor - Operating costs - Marketing costs - Building rent		<b>Revenue Streams</b> - Sales of coffee service and coffee packs - In store services (co-creation activities) - Coffee tours - Workshops about coffee		

The value proposition is created based on the customer segments profiles and how can the business add value to them. The presentation of that are framed on the Annexes J and K.



## 14 Implementation Plan

### 14.1 Actions

The actions will guide the “how?” to implement the plan, integrating the strategic guidelines. The same action can be considered for more than one guideline, since it is related between it.

**Table 12** - Actions and sub actions summary

Strategic Guidelines	Actions	Sub actions
Create a coffee shop integrated in the cooperative of coffee farmers	1 - Open the coffee shop	1.1) Rent a place in Rantepao city center
		1.2) Prepare the shop with layout and supplies
	2 - Recruit employees	a) Retail and operations manager b) Q grader barista c) Waiters/baristas
		a) Create Saleco’s digital platforms b) Integrated communication to local target and tourists
4- Develop services in store	a) Coffee tours b) Workshops c) Co-creation activities	
Exploitation of activities associated with coffee tourism	5 -Train Farmers	a) English language b) Touristic guidance
	6 - Create partnerships	a) Tourism agencies b) Local touristic establishments c) Government
Improve the livelihood of coffee farmers	7 – Create a reward program for PPKT members	-

#### 14.1.1 Action 1 – Open the coffee shop

**Context** The integration of a new business to PPKT supply chain is the Saleco coffee shop, which requires some activities to be implemented after the market study about the current situation internally and externally. At first PPKT needs to find a place to rent, since it does not detain a place or land to open the shop, and it is the cheaper, easier and faster way to get it. Secondly this part of the business needs to be registered as a food and beverage service in the government to be legal. Then it is needed to build and prepare all the environment in the coffee shop with the pretended layout, decoration and supplies, such as equipment’s, furniture and raw materials.

### **Action 1.1 - Rent a place in Rantepao city**

**Objective** The location is one of the most important factors to be succeed in retailing. Since PPKT does not have the land and building, it is necessary to search for the smart location to rent the place and create the coffee shop. The priority is to find a place with a minimum area of 60 m<sup>2</sup> to fit with the layout experience (front service/counter area, customers area, tasting and roasting area), and capacity for 40 people at the same time. It should be in the city center to be accessible and with a view to the nature, which suggest being in the city of Rantepao with open view to mountains or river. The renting price should be fair and less than 2 million IDR per month.

**Activities** This action is a need to materialize the coffee shop opening, which start on searching for renting opportunities in the city, through online platforms and mostly through word of mouth in the community. The step after finding the place is negotiated to obtain the deal.

**Difficulty** (1/5) The location is in a rural area even being in the city of Rantepao, which mean it is easier to find a space and offer to be rented.

**Evaluation metrics** Monitoring the proportion of fixed costs of this rent with the monthly income in order to have a profitable business.

**Budget** The shop building renting will cost 2 million rupiah per month (24 million IDR per year) per 60m<sup>2</sup> in the city center.

### **Action 1.2 - Prepare the shop with layout and supplies**

**Objective** The shop is the main physical place where the customer contact with Saleco coffee and its concept experience. The preparation of the space is the final step to open and integrate the coffee shop business, whereby the execution of concept implementation needs to be very well done. These activities will transmit the concept experience through the sum of elements such has the coffee equipment, decoration, furniture, menu and other basic facilities.

**Table 13** - Action 1.2: activities and cost associated

<b>Activity</b>	<b>Description</b>	<b>Cost (initial investment) /IDR</b>	
1- Adapt and remodel the layout	The rented space will need to be adapted to the pretended layout and do some works on the space creating the service areas as the counter and other works needed.	Materials	20 million
		Labor work	1,9 million * 2 = 3,8 million
2- Purchase the supplies	The elements to compose the service and space such as equipment's (expresso machine, tools, displays), furniture, decoration and perishables as food.	Equipment	37,8 million
		Furniture	15 million
		Tools/ service display	5 million
		Perishables	3 million
		Decor elements	5 million
3- Decor and finalize the environment	The final details with the decoration and execution of the concept in a physical way	-	

**Difficulty** (2/5) The adaptation of the space to the pretended finality take time and can occur some delays on this type of work, from difficulty to obtain the supplies on time or work labor delay. The labor work is relatively easy to find someone who can do this professional task, through word of mouth in the community and past reviews in other works. Besides the fact of being little works that the members can be apt to do it.

**Evaluation metrics** Create a forecast and a predicted budget to control the costs, achieve the objectives with the purchases and manage the timeline divided into 3 main phases with the tasks listed to be checked.

#### 14.1.2 Action 2 – Recruit employees

**Context** The integration and operation of a coffee shop in the PPKT requires professionals' graders of specialty coffee, to serve and mostly to manage the business. Management and baristas are still a PPKT point that needs to be improved. In order to achieve the Saleco's coffee shop goal objectives and do a smart management, it is needed to recruit a retail and operation manager, a Q grader which is specialized in specialty coffee grading, and the waiters and baristas to serve the coffee in the shop.

**Objective** Invest in the talented human resources to obtain return on quality and business performance. Recruit 4 more employees to be able to manage a new part of the business.

**Activities** This recruitment will be communicated through the website, social media, and community by word of mouth with a human resources selection based on their qualifications, experience in the area and above all, the trust and dynamic with the team. The 4 people to be recruited need to be proactive and participants in all the operation's tasks in the coffee shop.

**Table 14 - Action 2: activities**

<b>Recruitment</b>	<b>Activity</b>
Retail and operations manager	Recruit 1 person with above 3 years of experience in the management and operations area, with focus on retail to help and organize the pre-opening coffee shop, services and follow the business strategy and operations. The person will also help on daily operations and services at the coffee shop, and brand management (digital social media management included)
Q grader/barista	Recruit 1 barista certified as Q grader to be focused on guaranteeing the quality that is sold on each coffee and keep the specialty coffee on high standards. Also, it is the person with more knowledge to do the workshops.
Waiter/baristas	Recruit 2 waiters to serve and prepare the coffee and food to customers. Manage the operational tasks.

**Difficulty** (2/5) This recruitment will be easy to attract potential waiters who wants to work and have some experience in the retail or contact to people services. In case of the manager and the Q grader the difficulty is slightly higher, since the location is in the rural place where does not have the same conditions as the urban areas where they usually live and studied before. Although the value and concept of the business can be attractive and compensate the trade-off.

**Evaluation metrics** Evaluate the performance of employees along the work and business growing with monitoring every semester, through feedback sessions. Other indicators as monthly sales, number of clients per month with related frequency and satisfaction level of customers.

**Budget** This action does not require money, since the platforms to communicate the jobs are free. The labor wages are a cost included in the coffee shop operation with these labor wages:



**Table 15 - Action 2: Coffee shop labor wages**

Job positions	Labor wage (month)
Retail and operations manager	4 000 000 IDR
Q grader and barista	3 500 000 IDR
Waiter and barista	2 800 000 IDR

### 14.1.3 Action 3 – Develop Saleco’s communication plan

**Objective** The general objective of integrate the communication is the bridge creation between the brand Saleco and its coffee shop with the customers. It is the method to make them know of Saleco existence and exploited products and activities.

**Description** The integrated marketing communication take into consideration both targets with another specific objectives for each one and related activities, as presented in the table 16 and 17.

**Table 16 - Action 3: IMC plan for local coffee consumers target**

Target A	Local coffee consumers		
Objective	Increase brand notoriety	Increase experimentation	Promote brand loyalty
Actions	1- Organic and paid posts on social media, as Instagram to create engagement with consumers;	2- Promote on digital payment apps the cashback discounts; 3- Create menus/packs with a key product and the additional products;	4- Create a loyalty card with stamps, that offers a pack of coffee after 10 coffee cup purchases.
Evaluation Measures	- Number of views, followers, interactions as messages, comments, shares and likes;	- Number of discounts applied; - Number of sales of menu and packs.	-Number of loyalty cards used/finished; -Number of client’s retention.
Message	Saleco is a specialty coffee from Toraja that provides the best quality coffee to every consumer that appreciates this experience		

**Table 17 - Action 3: IMC plan for Toraja’s tourists target**

<b>Target B</b>	Toraja’s Tourists		
<b>Objective</b>	Create brand awareness	Increase brand trust	Generate new consumers
<b>Actions</b>	1- Organic and paid posts on social media, as Instagram with a link to the Saleco website;	2- Create a Google Business account, where is shared the location, contacts, business links of website, social media and reviews from consumers; 3- Post with frequency on social media and create a website; 4- Promote consumers reviews about the coffee and services;	5- Create a partnership with local tourism establishments as hotels, promoting by recommendation and tourism agencies;
<b>Evaluation Measures</b>	- Number of views, followers, likes and clicks; - Quantify consumers origin (social media; recommendations, online reviews, Google search, etc)		- Number of visitors from these partners;
<b>Message</b>	Saleco is a specialty coffee from Toraja with expertise and enhanced quality in every process of coffee industry.		

**Difficulty** (2/5) The initial activities in the plan will take more time and effort, considering the platform/profiles creation and first participation on the process to achieve the local and international target, although the following action will be easier and just need a correct and effective management to maintain the communication strategy.

**Planned activities** The activities occur during the 3 years plan on going, although it is planned to advertise four campaigns. To communicate the launch of coffee tours, the coffee shop and the services, and the coffee shop as a complete business. It is described in detail in the Annex L.

**Budget** The communication plan is estimated to cost around 37 million IDR (Annex M) which includes advertising campaigns on Instagram (coffee tours visit’s attractions, coffee shop opening and new services), Saleco website creation and maintenance, the costs to print the loyalty cards, and the fee for partners sales.

#### **14.1.4 Action 4 – Develop extra services in store**

**Context** The store concept is built around the coffee supply chain targeted to people interested in coffee, that pretends to enjoy the product and learn more about the Toraja coffee. The fact of them detains different financial capabilities and wiliness to pay more for specialty coffee product or services, creates an opportunity to explore extra services

and adequate the activities to the strategic guideline of livelihood improvement of coffee farmers. Besides the fact of being a differentiated touristic activity explored in the region.

**Objective** The extra services provided in the coffee shop and Saleco environment are an opportunity to make more income and growth on the business in value and volume of sales. Add more value to the business using referential touch points along the PPKT coffee chain.

**Description** These services consist in additional source of income that complete the business on its proposition. It is considered as independent activities from the current daily coffee service at the coffee shop, which are the coffee tours, the coffee workshops and the co-creation on coffee process. Besides the fact of being independent, there are crucial to represent the Saleco mission and to raise the initial financing to run the coffee shop, since the needed resources to start selling these services are already detained by PPKT. It will use the coffee shop at the end, although until the coffee shop is not created and opened, the places in use will be adapted, using temporarily the PPKT cooperative space.

**Table 18** - Action 4: Activities - the implementation by phases

Phase	Activity
1	Coffee tour with last tour phases (roasting, grounding and tasting) in the PPKT cooperative space.
Coffee shop opening	
2	Co-creation of cupping/tasting and roasting with customers in the coffee shop
	Coffee tours completed in the coffee shop space and tours sales in store.
3	Workshops about cupping and specialty coffee grading

**Difficulty** (3/5) These actions requires knowledge about coffee processing, which PPKT human resources partly detains from the experience on the industry. Although some aspects are new, such as tourism services or education to people from outside the cooperative. The most difficult point will be the management of these services.

**Evaluation metrics** The success of this action will be measured based by monitoring the updates implementation through the phases and the monthly funds raised to invest on the coffee shop opening which requires a minimum of 178 million IDR (initial investment, 7 months of rent and 1 month of coffee shop costs).

**Budget** These actions require operational costs to develop the activities, as the materials, equipment, space, transportation and human resources as guide, waiter and teacher. Each coffee tour is estimated to cost around 785k IDR (Annex N). The costs to do the co-creation activity and workshop are diluted to the coffee shop expenses.

#### 14.1.5 Action 5 – Train Farmers

**Context** Farmers are cooperative members with knowledge on coffee production and how to farm their own plantations. Although to be part of the coffee tours, where they show their own space and process work, the need for tourism guidance aptence and English language to explain and speak with tourists is filled,

**Objective** Train farmers to participate in the coffee tours as guides with English skills apt to communicate with the tourists.

**Activities** The training will be divided in two parts with a tourism guidance workshop with short duration as farmers are used to do (two days) and an English course with medium to long duration (one/two months), learning the basics. The trainers will be volunteers contacted by PPKT.

**Table 19 - Action 5: activities description**

<b>Training</b>	<b>Pre-Activity</b>	<b>Activity</b>
Touristic guide	Contact a professional in the tourism area as volunteer to do the workshop	A workshop to learn the tourism basics and how to interact with the tourists proportionating an experience with strong storytelling.
English language	Contact an organization as AIESEC to create a volunteering project where is taught English basics	English course taught in the PPKT cooperative to the interested farmers in participate/work on the coffee tours. It will have a duration of one or two months depending on the availability of volunteers and farmers.

**Difficulty** (4/5) the action depends on external factors and availability of other people to train without monetary compensation. The value added to the farmers and PPKT are superior than to the trainers.

**Evaluation metrics** The occurrence of trainings as planned and participation of farmers to count a class able to be guides in their own plantations.

**Budget** The volunteering does not require cost to PPKT and the establishment to do the training will be in the cooperative, with no costs associated too.

#### 14.1.6 Action 6 – Create partnerships

**Context** The business idea of creates a new different touristic attraction in Toraja the coffee requires capacity to attract tourists with interest on the topic, and for that the touristic business already established in the region can be partners to influencing in the experimentation of Saleco’s experience. The government is a fundamental piece while promoting the region internally in Indonesia and to foreigner countries.

**Objective** Promote the Saleco’s coffee experience across recommendations, which will increase the penetration of new clients.

**Table 20** - Action 6: activities description

Partnership	Pre-Activity	Activity
Tourism agencies	Contact directly (e-mail, phone or in person) on 1 <sup>st</sup> trimester of business plan implementation and keep partnership on the following months	Promotes and attract visitors/clients from outside Toraja, across promotional packs
Local touristic establishments		Recommend the experience in hotels and other establishments attracting more visitors
Government	Contact the local government with the intention of developing a partnership after opening the coffee shop and complete all the vertical integration	Promotes the tourism in the region with usual traditions and the lighter appeal of coffee related subjects.

**Difficulty** (2/5) It is an action dependent on both intervening, PPKT and potential partners, requiring from the cooperative the capacity of negotiate with them until the deal is well succeed. It can be difficult to seal the deal, but it exists other more potential partners to look if the first choices are not interested.

**Evaluation metrics** Monitoring the visitors/clients from each partner each month and quantify its profitability. In case of government besides this monitorization is the minimum of one promotion on governmental touristic campaigns or public relations activities referring Saleco’s coffee experience.

**Budget** The costs associated to these partnerships will depend on the finished negotiation, with a pretended deal of coffee product in change to 5% of revenue based on the sales of coffee tours from their origin. These percentage is referring to the partnership with tourism agencies that aggregates the demand of tourists and attract them to Toraja.

#### 14.1.7 Action 7 – Create an incentives program for PPKT members

**Context** The cooperative members are the source of coffee supply in PPKT. The coffee are sold to the cooperative and then they are paid for the peaberry or green bean (with a fair price and higher than the other buyers (*tengkulak* or companies). This value can be higher with the coffee sold at the cup in the coffee shop, providing higher margins. It helps to guarantee a fair and organized investment from farmers, ensuring the quality on the process, the loyalty to the PPKT and mostly the increase on coffee farmers income.

**Objective** Reward the farmers with their coffee investment in Saleco’s Business with monetary compensation, proportional to their work and final product quality. Promotes loyalty on supply to PPKT.

**Table 21** - Action 7: Incentives program description

Program Structure	<p>The coffee farmers sell (invest) the coffee green bean and it is processed until the cupping. The monthly sales of each single origin in the coffee shop are returned in proportion of the coffee sold by the farmer. The program will follow these rules:</p> <ul style="list-style-type: none"> <li>- The rewards are proportional to the quantity of coffee sold by the farmer, starting on 5% to 8%, varying with the monthly business profit;</li> <li>- The returns of investment are rewarded at the end of each month after the sales report with reference of each single origin sales quantity;</li> <li>- The batch of coffee needs to be evaluated above 85 of 100;</li> </ul>
Budget	<p>It costs 5 to 8% of the profit margin of cup of coffee from each single origin. According to the forecasted monthly sales it will represent around 2 million IDR in incentives.</p>

**Difficulty** (1/5) This action is a win-win situation where the farmers can receive more income and be beneficiated from their quality work, while Saleco coffee shop obtain the best coffee quality and more exclusivity on supply. Although, the farmers cannot adapt easily to the fact of receiving the monetary return after 30 days. The controlling and measures needs to be detailed.

**Evaluation metrics** The rewards and returns on each investment needs to be measured and registered, in order to be organized and fair to the members. The metrics will be the sales of each single origin/farm and the coffee supply in order to relate the figures. The score quality of each coffee production by single origin, evaluated by the Q grader.

### 14.2 Chronogram

**Table 22 - Action plan chronogram (2021 to 2023)**

Action Plan Chronogram	2021				2022				2023			
	1st	2nd	3rd	4th	1st	2nd	3rd	4th	1st	2nd	3rd	4th
<b>1 - Open the coffee shop</b>												
1.1 - Rent a place in Rantepao city center												
1.2 - Prepare the shop with layout and supplies												
<b>2 - Recruit employees</b>												
a - Retail and operations manager												
b/c - Q grader barista and waiters												
<b>3 - Develop Saleco communication plan</b>												
a - Create digital platforms												
b - Integrated Communication												
<b>4 - Develop services in store</b>												
a - Coffee tours												
b/c - Workshops and Co-creation activities												
<b>5 -Train Farmers</b>												
a - English Course												
b - Touristic Guides Workshop												
<b>6 - Create partnerships</b>												
a/b - Tourism agencies and local touristic establishments												
c) Government												
<b>7 -Create an incentives program for PPKT members</b>												

### 14.3 Implementation Team

The team involved in the business implementation and management are divided in two parts respectively. The implementation will first be planned by PPKT manager, quality controller and treasurer (the responsible for the cooperative management). They are the owners of PPKT tasks deliberation and organization, which will be necessary to prioritize the activities, manage the resources in order to integrate the coffee shop in the value chain. Once the coffee shop is on progress with the preparation and recruitment, the other part of the team starts operating, being responsible for Saleco business. This team will respond to PPKT. It is constituted by the Manager, Q grader, and other two waiters/baristas.





## 15 Contingency Plan

The contingency plan intends to prevent possible contingencies to the defined business plan, in order to mitigate the adjacent consequences and adapt the plan more easily to that reality, overcoming the problem. It identifies the possible critical situations, its consequences and the mitigation actions to take.

**Table 23 - Contingency plan**

<b>Contingency</b>	<b>Consequences</b>	<b>Measures to take</b>
Finding volunteers for training	- Farmers are not able to guide the tours with fluent communication with tourists and consistency on the guidance, devaluing the experience	Find alternative trainings: - Pay for a teacher/ English course and workshop - Find a farmer relative with English skills to teach in workshops
Failure on implementation and management of coffee tours	- Lack of initial financing for the coffee shop project	Search for other source of investment and funding: - Bank loan - Private investor
	- Business concept lost its identity	- Create alternatives inside the coffee shop to transpose the supply chain experience with displays instore and suggestions to visit related to coffee (eg. plantations)
Recruit a Q grader and qualified manager	Unskilled employees to substitute which causes possible degradation of: - Product and services quality - Business organization - Business profitability	- Invest on education of potential candidates with Q grade certification and management -Continue scoring the coffee in the Coffee Institute in Java
Finding partners for promotion	- Less visibility - Less customers attraction	Promote the tours and coffee shop in other channels, as digital with more investment
Prolonged effects of covid-19 pandemic	- Less tourists in the region - Less internal mobility inside Indonesia - Less frequency of consumers visits	Invest on other revenue sources: online marketplaces to sell coffee, online workshops, take-away coffee, selective tours with contingency measures



## **16 Economic Analysis**

This economic analysis aims to estimate the revenue and expenses related to the coffee shop business and the correlated actions, in order to evaluate business viability. This projection analyses the period of three years, starting in 2021. It is associated to the first year of fund raising to invest in the coffee shop integration, the second year is related to the business preparation in the first semester and launch of the coffee shop with half year of activity on the second semester, and a third year of full activity.

### **16.1 Forecast Revenue**

The sales forecast is projected in two main sources of revenue, the coffee shop sales and the services sales provided by Saleco (Annex O). Taking into consideration the target defined in the section 11.3.1, the frequency of visits to a coffee shop estimated in 60 visits per day by the survey and the coffee shop capacity (Annex P). The local consumers frequent on average two times per month, and the tourists one time per year (since they visit Toraja for just 3 days, on average). Also, the average ticket is estimated in 30k IDR to 50k IDR, respectively, including the coffee cup, other beverages and food. About the coffee packaged the quantity consider the PPKT historic of 217kg sold in 2019. It is estimated to sell 1kg of coffee roasted or grounded per month in the coffee shop and 1kg of coffee sales per coffee tour, with the argument of Saleco brand being more exposed to consumers.

About the services, the main revenue comes from coffee tours that starts activity on the first year of the plan to collect funds to open the shop. The sales are estimated according to tourist's presence mainly in holidays weeks, the frequency per week on average and the maximum participants per tour as defined in the Annexes O and P. The tour price is estimated with 550k IDR per person. The workshops have maximum capacity to 12 participants. The initial resources management with the opening, allows to provide one workshop per semester. The co-creation activity depends on the roasting procedure, with a capacity of one per week on the first year and two on the second year, to not overproduce coffee. The weeks for the activity are also estimated according to tourist consumers holidays.

**Table 24** – Saleco’s sales forecast (2021-2023)

	Measure	Forecast Quantity			Forecast Sales		
		2021	2022	2023	2021	2022	2023
<b>Coffee Shop Sales</b>					<b>- IDR</b>	<b>340 908 999 IDR</b>	<b>611 383 943 IDR</b>
Coffee Cups, Beverages and Food	Un	-	10425	20849	0	340 908 999 IDR	611 383 943 IDR
- Coffee Cups	Un	-	10425	20849	0	281 743 031 IDR	507 138 818 IDR
- Beverages and food	Un	-	10425	20849	0	59 165 968 IDR	104 245 126 IDR
<b>Coffee Packages (ground or roast)</b>	<b>Kg</b>	<b>42</b>	<b>271</b>	<b>357</b>	<b>9 870 000 IDR</b>	<b>63 685 000 IDR</b>	<b>83 895 000 IDR</b>
<b>Services Sales</b>					<b>277 200 000 IDR</b>	<b>344 400 000 IDR</b>	<b>900 000 000 IDR</b>
Coffee tours	Un	42	48	128	277 200 000 IDR	316 800 000 IDR	844 800 000 IDR
Workshop	Un	-	1	2	- IDR	8 400 000 IDR	16 800 000 IDR
Co-creation activity	Un	-	16	32	- IDR	19 200 000 IDR	38 400 000 IDR
<b>TOTAL</b>					<b>287 070 000 IDR</b>	<b>748 993 999 IDR</b>	<b>1 595 278 943 IDR</b>

The raised money on the first year is estimated in 287 070 000 IDR, with 88,5% of gross margin in coffee tours (Annex R). It allows the coffee shop opening on the second semester in 2022 with the additional services and a 161% growth on sales value, and a full year of sales on the third-year plan estimated on 1 595 278 943 IDR. It is estimated with VAT included.

## 16.2 Investment

The initial investment describes the value of the key resources to create the basis in order to open the coffee shop, as physical asset (renovate the rented space with necessary construction, furniture and decoration), the appliances, supplies and human resources to construct the pretended environment. It estimates the costs of the necessary resources beside the detained by PPKT, as in the table 25.

**Table 25** - Initial investment

Costs description	Value
Espresso coffee machine	(21 120 000) IDR
Appliances (fridge, toaster, blender)	(15 900 000) IDR
Cook and Service tools/acesories	(8 000 000) IDR
Furniture	(15 000 000) IDR
Decoration elements	(5 000 000) IDR
Construction Materials (Renovation)	(20 000 000) IDR
Labor Work (Renovation)	(3 800 000) IDR
<b>Initial Investment</b>	<b>(88 820 000) IDR</b>

The estimation of the initial investment costs 88 820 000 IDR as presented in the table 25, (VAT included) with prices definition from local people sources and online observation in Indonesian suppliers. Adding to these costs, are the estimated costs to the year of 2021 and 2022 presented in the following topic, in order to invest with less risk.

### 16.3 Estimated Costs

The costs associated to the business are divided in variable costs, with a estimation that depends on the quantity and is calculated with the expected quantities for these periods, and the fixed costs which are independent from variation in the business activity. These costs includes VAT.

The variable costs contains the external services, as sanitation and electricity, the supplies as coffee and perishables. The coffee supply is estimated based on the assumption of each visitor consumes one coffee cup with 60gr of coffee dried, converting to the liters of coffee sold by farmers multiplying per 2,6 (Annex S) (International Coffee Organization, 2011). Also contains the cost of marketing actions, as campaigns and promotion partnerships in Toraja. It is estimated a percentage of visitors attractions to the coffee tours form partners origin of 10%, which is paid with 0,05% of the coffee tour price. The transportation is rented per day costing 700 000 IDR. The variable costs with human resources are the farmer incentives which receives 5% of the coffee sales of their origin, and the tour guides that receives 80 000 IDR per coffee tour.

The fixed costs estimates the anual internet service, space renting and labor wages of human resources, with a hiring of the manager 3 months before start opening plan in order to prepare it, and the other employees are hired on the second semester with the opening time.

**Table 26 – Saleco’s annual estimated costs (2021–2023)**

Costs	Estimated Costs		
	2021	2022	2023
Sanitation	- IDR	(1 200 000) IDR	(2 400 000) IDR
Electricity	- IDR	(1 500 000) IDR	(3 000 000) IDR
Coffee	(242 424) IDR	(5 291 247) IDR	(10 767 197) IDR
Perishables (food, drink, paper, etc)	- IDR	(18 000 000) IDR	(42 000 000) IDR
Marketing Costs	(18 386 000) IDR	(9 584 000) IDR	(9 224 000) IDR
Farmer's Incentives	- IDR	(14 087 152) IDR	(25 356 941) IDR
Transportation costs (coffee tours)	(29 400 000) IDR	(33 600 000) IDR	(89 600 000) IDR
Guides tours	(3 360 000) IDR	(3 840 000) IDR	(10 240 000) IDR
<b>Variable costs</b>	<b>(51 388 424) IDR</b>	<b>(87 102 398) IDR</b>	<b>(192 588 138) IDR</b>
Internet service	- IDR	(1 800 000) IDR	(3 600 000) IDR
Labor wages	(12 000 000) IDR	(102 600 000) IDR	(157 200 000) IDR
Commercial Space Rent	- IDR	(24 000 000) IDR	(24 000 000) IDR
<b>Fixed Costs</b>	<b>(12 000 000) IDR</b>	<b>(128 400 000) IDR</b>	<b>(184 800 000) IDR</b>
<b>Total</b>	<b>(63 388 424) IDR</b>	<b>(215 502 398) IDR</b>	<b>(377 388 138) IDR</b>

The total costs on the first year are related with the coffee tours and planning, and the second year estimates a year of coffee tours costs and a semester of coffee shop activity. The third full year of activity costs 377 388 138 IDR, as presented in the table 26.

## 16.4 Income Statement

The income statement provides the information about the results over the periods, containing the profit and losses, allowing to evaluate the management effectiveness without VAT. The net income is positive on 3 years plan, concluding that sales cover all the operational expenses.

In the first year the activities do not require initial investment since the revenues covers the variable expenses of renting materials (transportation), guides and coffee, that are only necessary once each tour occur. The general and administrative expenses with a full business running represent the major expense with 20% of the total income 2022, although it decreases for 14% in 2023. This occurs from the increasing sales and the costs dilution in the quantities. The depreciations of fixed tangible assets referred to the project investment are calculated with a lifespan of 4 years.

**Table 27** - Saleco coffee shop income statement (2021-2023)

Description	2021	2022	2023
Sales and Provision of services	258 363 000 IDR	674 094 599 IDR	1 435 751 049 IDR
Cost of goods sold	(218 182) IDR	(20 962 122) IDR	(47 490 477) IDR
General and administrative expenses	(13 824 000) IDR	(137 544 436) IDR	(203 217 247) IDR
Selling and distribution expenses	(16 547 400) IDR	(8 625 600) IDR	(8 301 600) IDR
<b>EBITDA</b>	<b>227 773 418 IDR</b>	<b>506 962 441 IDR</b>	<b>1 176 741 725 IDR</b>
Depreciations		21 255 000 IDR	21 255 000 IDR
<b>EBT (Earnings Before Taxes)</b>	<b>227 773 418 IDR</b>	<b>485 707 441 IDR</b>	<b>1 155 486 725 IDR</b>
Taxable Income (12,5%)	(28 471 677) IDR	(60 713 430) IDR	(144 435 841) IDR
<b>Net Income</b>	<b>199 301 741 IDR</b>	<b>424 994 011 IDR</b>	<b>1 011 050 884 IDR</b>

As conclusion of economic analysis, Saleco coffee shop achieves a stable economic performance over the first years, generating profit since the beginning of the activity with coffee tours (Annex R), followed by a profitable coffee shop business with a gross margin of 54,9% (Annex T) and a gross margin of 76% in the complete Saleco business on a full year 2023 (Annex U).

## 16.5 Cash flow Analysis

The cash flow analysis considers the monetary outflow and inflow. It takes into account the operational cashflow on the three years plan and the capital investment done in the second year, after earning the income from coffee tours and coffee packs to invest on the coffee shop.

**Table 28 - Cash Flows (2021 – 2023)**

<b>Operational Cash Flow</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>
<b>Net income</b>	199 301 741 IDR	424 994 011 IDR	1 011 050 884 IDR
<b>Non-Cash Expenses</b>			
+ Depreciation		21 255 000 IDR	21 255 000 IDR
- Δ Working capital	2 920 050 IDR	9 650 910 IDR	19 705 184 IDR
+receivables	2 870 700 IDR	7 489 940 IDR	15 952 789 IDR
+Inventories	1 435 350 IDR	3 744 970 IDR	7 976 395 IDR
-payables	1 386 000 IDR	1 584 000 IDR	4 224 000 IDR
<b>Operational Cash Flow</b>	196 381 691 IDR	436 598 101 IDR	1 012 600 700 IDR
<b>Invested Capital</b>		178 800 123 IDR	
<b>Cash Flow</b>	<b>196 381 691 IDR</b>	<b>257 797 978 IDR</b>	<b>1 012 600 700 IDR</b>

In the first year of activity the cash flow is positive with 196 381 691 IDR. In the second year it remains positive even with the invested capital of 178 800 123 IDR to open the coffee shop.





## 17 Conclusions

This project aims to contribute to a collective management improvement with an integration of a coffee shop in a cooperative of farmers' supply chain. With the goal to complete a full experience from the coffee plantations to the cup of coffee, adding more value to intervenients in the chain, since the producers to the consumers of coffee and the region of coffee origin, Toraja.

In order to achieve this purpose was performed a business environment analysis where Saleco coffee shop will operate and an internal analysis of PPKT cooperative, to understand how the cooperative would take advantage from the market with its strengths and weaknesses. These analyses support the definition of the strategic guidelines simultaneously with the literature review, the necessary elements to develop the business strategy and the following operational plan with its implementation plan. As a complement to PPKT business, was done an economic analysis to conclude the profitability of the project and the necessary budget to implement it.

The main results of this business plan verified an opportunity on the coffee market with a domestic consumption growth of 144% (2003 to 2017) along with the global interest in specialty coffee, and the known quality of coffee in Toraja. It is an industry with a long supply chain where the producers of coffee (small farmers) do not benefit from this demand properly, receiving only 19% to 22% of the cup of coffee value. Which is currently not enough to support operational costs.

It was identified an opportunity and a problem which PPKT can solve with the existent resources, integrating a coffee shop on its value chain. It benefits interested parties: the farmers who collaborate with PPKT, the cooperative itself with more income, the coffee consumers with a quality specialty coffee shop offer, its tourists from Toraja and the region with more awareness and attraction reasons. It was also verified a blue ocean for exploitation of coffee tourism in the region, where it creates an experience of learning and leisure through the coffee plantations to the cupping. This experience can be a new point of attraction for Toraja creating more economic value, while teach the consumers about the specialty coffee and its quality relevance.

This specialty coffee shop and related services was considered a potential business to invest with capacity to monetize the existent resources in PPKT and the region. The business plan concludes that is a profitable business on the estimated three years plan, which requires an initial investment of 88 820 000 IDR and other costs referring to the

six months of coffee tours operation, the launch of coffee shop and the coffee shop operating costs of one month, with a total required budget of 178 800 123 IDR (Annex V). The annual results are positive on the three years with an estimated gross margin superior to 59% on the years planned.

This project is planned as mostly independent from the cooperative, allowing to estimate the revenue and costs separately from the operation in PPKT. The year of 2019 for PPKT obtained negative results which could overcharge the real project viability. Although the cooperative on average has annual sales of 794 million IDR with an average profit of around 164 million IDR per year. The necessary investment represents 109% of PPKT annual average profit, which mean it does not cover the project investment of 178 800 123 IDR. It confirms the need to obtain other sources of capital as planned above.

Once the Saleco business plan is implemented, the Saleco coffee shop will be able to effectively achieve its mission of sharing knowledge and humanity through Toraja specialty coffee.

### **17.1 Project Limitations**

This business plan was performed using available data about coffee industry with different scopes: Global, Asia, Indonesia, Sulawesi and Toraja, which involved some constraints regarding data comparison. As regarding urban and rural areas, since the most available information is referred about urban areas market characteristics, as consumption behavior for example. In order to overtake that limitation, it was done personal local observation, interviews and a survey with direct data from urban and rural population. Although, the 230 answers cannot show the real consumers attitude or willingness to purchase, since it is a representative sample with small proportion compared to the reality.

Also, this project was done using two main languages, English and Bahasa Indonesia, during the search and some interactions with Indonesian people on survey and interviews, which on translations process could occurred some misunderstandings.

Finally, Covid-19 pandemic impact on tourism was not evaluated for this project. The research project started in 2019 in Indonesia, months before the pandemic occurrence. However, this business plan permits a postponement of its implementation, meaning that PPKT can delay the implementation 1 or 2 years, until the number of consumer demand grows back to the 2019 values or to a minimum value that justifies the implementation of the project.

## **17.2 Suggestions**

This business plan is focused on the integration of a coffee shop in the cooperative of coffee farmers over a period of three years plan. Nevertheless, it was identified opportunities to invest in the future behind the plan to make it more profitable and corresponding to the project's mission. These suggestions require money and time, which it is expected to be able after three years of coffee shop implementation, which are the Fairtrade certification of coffee of PPKT and the creation of Saleco merchandising as tools to make specialty coffee at home.



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## 19 Annexes

### Annex A - Online Survey: Study about coffee Toraja

(English version - Performed in English and Bahasa)

**I.** Do you live in Indonesia? (Yes | No)

**II.** Where do you live? (country)

**III.** Please write the city where you live

**IV.** How often do you go to a coffee shop?

- |                                |                                |
|--------------------------------|--------------------------------|
| a) Never                       | d) 6 to 8 times per month      |
| b) Less than 2 times per month | e) More than 8 times per month |
| c) 3 to 5 times per month      |                                |

**V.** How much do you spend on average at a coffee shop? (Individual consumption in Euro and IDR)

- |                                       |                                       |
|---------------------------------------|---------------------------------------|
| a) Less than 1€   Kurang dari 15k IDR | f) >5€ to 6€   >75k to 90k IDR        |
| b) >1€ to 2€   >15k to 30k IDR        | g) >6€ to 7€   >90k to 105k IDR       |
| c) >2€ to 3€   >30k to 45k IDR        | h) More than 7€   Lebih dari 120k IDR |
| d) >3€ to 4€   >45k to 60k IDR        |                                       |
| e) >4€ to 5€   >60k to 75k IDR        |                                       |

**VI.** What are the most important things that a coffee shop should have? (maximum 3)

- |   |   |
|---|---|
| <input type="radio"/> Pastry and Bakery on menu       | <input type="radio"/> Convenient location |
| <input type="radio"/> Diversity on coffee options     | <input type="radio"/> Quality coffee      |
| <input type="radio"/> Socializing space               | <input type="radio"/> Workspace           |
| <input type="radio"/> Smoking space                   | <input type="radio"/> Live music          |
| <input type="radio"/> WI-FI                           | <input type="radio"/> Affordable prices   |
| <input type="radio"/> Good decoration and environment | <input type="radio"/> Take Away Coffee    |

**A1)** Specialty coffee is a coffee produced with high standards of quality, from the sustainable management of resources to the recognized quality on final product. Assess your level of agreement with the following statements. 1- Strongly disagree and 7- Strongly agree

- I would like to try specialty coffee
- I would be willing to pay more for specialty coffee
- I would be willing to pay more for sustainable coffee
- I would be willing to pay more for certified quality coffee
- Coffee origin is highly important for me

**A2)** Assess your level of agreement with the following statements, regarding coffee shop environment 1- Strongly disagree and 7- Strongly agree

- I like the coffee smell in the coffee shop
- I like the slow music in the coffee shop
- I like to see how the coffee is made
- I like to see traditional decoration in the coffee shop

**B) Coffee Tourism**

The coffee tourism is the combination of coffee consumption, history, traditions, and culture of destination. Toraja is a region in Indonesia known for its untouched traditions, rituals and coffee plantations on the highlands.

**B1)** Have you ever visited Toraja?

- a) Yes b) No, but I have visited Indonesia c)No

**B2)** Imagine you are visiting Toraja Region. What would make you do a coffee tour?

- Have a tour with transportation included
- Explore plantations landscape
- Drink specialty coffee
- Learn how to produce coffee
- Learn about farmers history
- Explore the culture of destination
- Experience different coffee drinks

**B3)** Assess your level of agreement with the following statements. Take in account Toraja is a coffee region producer in Indonesia known for Arabica specialty coffee from the highlands. Rate between 1- Strongly disagree and 7- Strongly agree

- I would like to visit Toraja to experience the coffee
- I would like to visit coffee plantations
- I would like to know how the coffee is produced
- I would like to know the coffee farmers reality
- I would like to do coffee tour

**C1)** For each cup of coffee sold, coffee farmers receive the lowest part of the total price. Meaning that they usually live in poor livelihood conditions. Imagine you can help to improve this situation. Assess your level of agreement with the following statements. Rate between 1- Strongly disagree and 7- Strongly agree

- I would be willing to pay a higher price for coffee
- I would be willing to give an extra amount on my bill
- I would consider going on a coffee tour
- I would pay for a coffee tour

**VII.** How old are you?

**VIII.** What is your gender?

- a) Female b) Male c) Other

**VIII.** What was your level of education?

- a) Elementary School
- b) Junior High School
- c) Senior High School
- d) Bachelor's Degree
- e) Master's Degree
- f) Doctoral Degree

**IX.** What is your current activity?

- a) Student
- b) Unemployed
- c) Employed
- d) I have my own business
- e) Other





**Annex B - Online Survey Results****Where do you live? (n =230)**

Country	Count	%
Andorra	1	0,4%
Bangladesh	1	0,4%
Bulgaria	1	0,4%
Canada	1	0,4%
Czechia	1	0,4%
Denmark	2	0,9%
Finland	1	0,4%
France	2	0,9%
Germany	4	1,7%
Greece	2	0,9%
India	1	0,4%
Indonesia	148	64,3%
Netherlands	6,0	2,6%
Peru	3,0	1,3%
Philippines	1	0,4%
Portugal	34	14,8%
Romania	1	0,4%
Singapore	2	0,9%
Spain	3	1,3%
Turkey	5	2,2%
Uganda	1	0,4%
United Arab Emirates (UAE)	4	1,7%
United Kingdom (UK)	2	0,9%
United States of America (USA)	2	0,9%
Vietnam	1	0,4%
<b>Total</b>	<b>230</b>	<b>100%</b>

**What is the most important thing that a coffee shop should have? (Maximum 3 options)**

Rural area in Indonesia (n=65)		Urban area in Indonesia (n=83)	
Factors	Count	Factors	Count
Quality coffee	38	Quality coffee	50
WI-FI	27	Convenient location	41
Affordable prices	27	Affordable prices	35
Good decoration and environment	25	WI-FI	30
Convenient location	25	Good decoration and environment	21
Diversity on coffee options	21	Diversity on coffee options	14
Live music	9	Pastry and Bakery on menu	12
Pastry and Bakery on menu	6	Workspace	11
Smoking space	4	Socializing space	10
Socializing space	3	Smoking space	7
Take Away Coffee	1	Take Away Coffee	4
Workspace	0	Live music	3

### How much do you spend on average at a coffee shop?

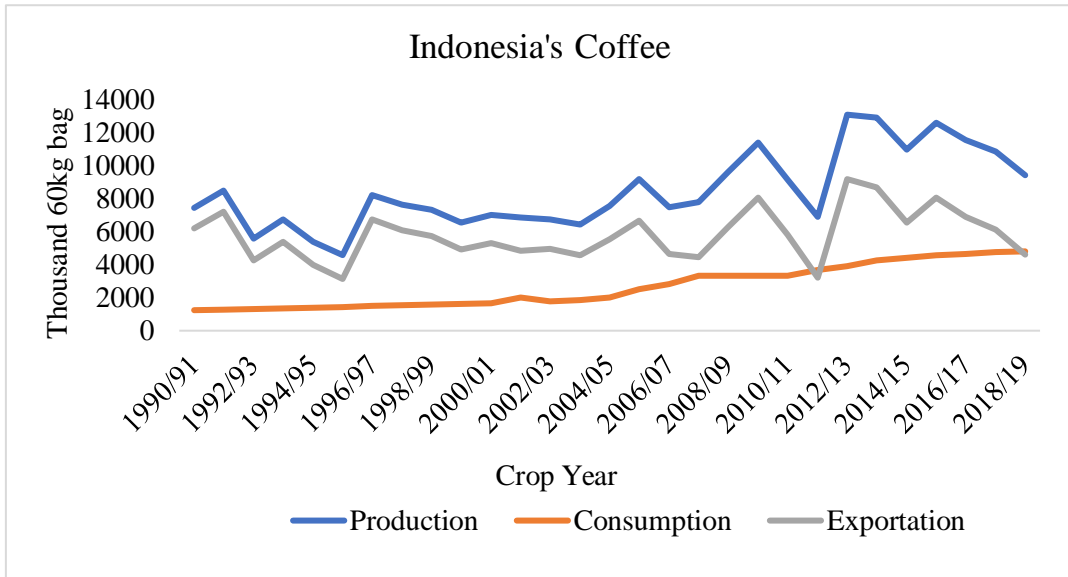
Rural area in Indonesia (n= 65)		
Value (k IDR)	Count	Sum
12,5	11	137,5
22,5	36	810
37,5	12	450
52,5	4	210
67,5	1	67,5
82,5	1	82,5
<b>Total</b>	<b>65</b>	<b>1758</b>
<b>Average (k IDR)</b>		<b>27</b>

Urban area in Indonesia (n=83)		
Value (k IDR)	Count	Sum
12,5	10	125
22,5	28	630
37,5	22	825
52,5	16	840
67,5	1	67,5
82,5	2	165
97,5	2	195
120	2	240
<b>Total</b>	<b>76</b>	<b>3088</b>
<b>Average (k IDR)</b>		<b>41</b>

International Consumers (n=82)		
Value (€)	Count	Sum
0,6	10	6
1,5	14	21
2,5	31	77,5
3,5	9	31,5
4,5	6	27
5,5	4	22
6,5	2	13
8	6	48
<b>Total</b>	<b>82</b>	<b>246</b>
<b>Average (€)</b>		<b>3</b>
<b>Average (k IDR)</b>		<b>52</b>

Survey Results	Average Evaluation (1 to 7)			Average Evaluation (%)		
	Total	International and Urban Areas in Indonesia	Rural Areas in Indonesia	Total	International and Urban Areas in Indonesia	Rural Areas in Indonesia
Willingness to do a coffee tour	5,2	5,2	5,2	74%	74%	75%
Willingness to try specialty coffee	5,3	5,4	5,0	76%	77%	72%
Willingness experience coffee Toraja	4,9	4,8	5,0	70%	69%	71%
	n=230	n=165	n=65	n=230	n=165	n=65

**Annex C - Indonesia's Coffee - production, exportation and consumption (1990-2019)**



Source: ICO, 2019



Annex D - Saleco Packaging



Front of Pack



Back of Pack



**Annex E - PPKT annual results (2016 to 2019)**

	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>
Total Gains	507 079 500 IDR	536 413 410 IDR	1 340 854 000 IDR	595 993 250 IDR
Total Loss	449 417 900 IDR	432 002 354 IDR	1 010 695 662 IDR	1 171 860 293 IDR
<b>Annual Results</b>	<b>57 661 600 IDR</b>	<b>104 411 056 IDR</b>	<b>330 158 338 IDR</b>	<b>- 575 867 043 IDR</b>
Growth		<b>81%</b>	<b>216%</b>	<b>-274%</b>





**Annex F - Complete SWOT Analysis: evaluation and metrics**

<b>Opportunities</b>	<b>Business' Impact</b>	<b>Occurrence Probability</b>
1. Fresh coffee consumption growth in Indonesia	3	2
2. Spread of coffee culture in coffee exporters' countries	2	2
3. Increase demand for specialty coffee	3	2
4. Existence of a Geographical Indicator for Torajan Coffee "Coffee Arabica Toraja"	2	3
5. Toraja is one of the main tourism attractions in South Sulawesi contributing to growth.	3	3
6. Rise demand for coffee ready to drink	2	2
7. The increase of buying power through growing of middle class	2	2
8. South Sulawesi Government has as one the priorities for the mandate, the increase of knowledge on the communitarian cultivation, in order to optimize the results on production	1	1
9. Accommodation and food services activities in Toraja had been growing	2	2
10. Tourism in Indonesia has been increasing. In case of Toraja through local tourists	2	1
11. Toraja is in a rural place with most of resources available to open a coffee shop	2	2
12. Technology presence in a coffee shop is a trend	2	2

<b>Threats</b>	<b>Business' Impact</b>	<b>Occurrence Probability</b>
1. Lack of access and transportation to Toraja Regencies	2	3
2. Purchase power in rural places is lower	2	2
3. Local Government has medium/high influence through relations with Torajan people and projects	3	2
4. Low entry barriers that enable new players to build the new business and supported the available stock coffee machine, ingredient and human resources	2	1
5. Toraja tourists are mostly from Indonesia, with less power purchase than foreigners	2	2
6. Most of coffee farmers does not have the property certified, which difficult the bank loan	1	1
7. The biggest coffee supplier in Toraja is owned by Japan which imports around 11% of Indonesian coffee exportations	2	1
8. Instability on coffee quality caused by climate change, aged plants and diseases on plants	2	1
9. Growth on coffee culture is more significant within city lifestyle	2	3
10. Coffee supply chain is extensive creating volatility and increases coffee prices	2	2
11. Indonesian coffee quality is instable	2	2

<b>Strengths</b>	<b>Business' Impact</b>	<b>Trend</b>
1. Vertical Integration on coffee supply with harvesting, sorting, roasting, grinding and labeling process	3	1
2. Offer of specialty Arabica coffee, the most valued coffee and GI certified in Toraja	3	3
3. Knowledge on coffee industry shared between members and trainings with the coffee experts (SCAI)	3	2
4. Diversity on offer - Arabica coffee from 8 origins (sub districts) in Toraja	2	1
5. Good relations with members, local population and government	3	2
6. Quality coffee control (manual sorting)	2	2
7. Existence of a coffee brand associated to PPKT - Saleco	2	1
8. Coffee beans are processed with international quality standards, organic and sustainable certified	2	2

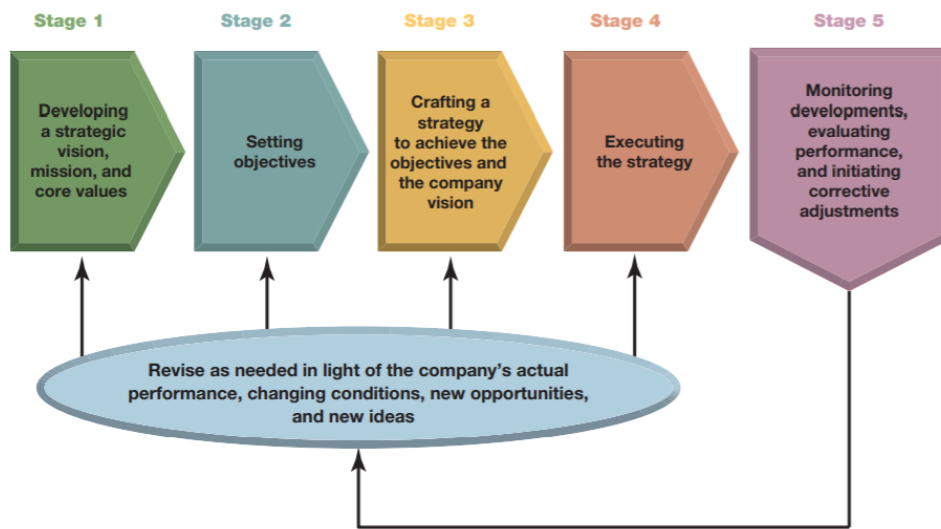
<b>Weaknesses</b>	<b>Business' Impact</b>	<b>Trend</b>
1. Lack of financial resources to invest in short term	3	2
2. Saleco brand awareness still weak (offline and online)	2	2
3. Short human resources in team for dealing with day-today tasks and management/strategy of a new business category	3	2
4. Inexistence of own property to create the coffee shop	1	1
5. Underdeveloped presence on digital platforms as website and social media	2	2
6. Unpredicted availability of quality coffee from 8 single origins	3	1

**Annex G - VRIO validation test**

<b>Competencies and Resources</b>	<b>Valious?</b>	<b>Rare?</b>	<b>Hard to Imitate?</b>	<b>Explored by Organization?</b>
E1	Yes	Yes	Yes	Yes
E2	Yes	No		
E3	Yes	Yes	No	
E4	Yes	No		
E5	Yes	Yes	Yes	Yes
E6	Yes	Yes	Yes	Yes
E7	Yes	Yes	Yes	No
E8	Yes	Yes	No	
E9	Yes	Yes	Yes	Yes
E10	Yes	Yes	No	
E11	Yes	No		
C1	Yes	Yes	No	
C2	Yes	No		
C3	Yes	No		
C4	Yes	Yes	No	
C5	Yes	Yes	No	
C6	Yes	No		
C7	Yes	Yes	No	
C8	Yes	Yes	No	



**Annex H** - The strategy making, strategy-executing process



Source: (Thompson, Strickland, & Gamble, 2007)



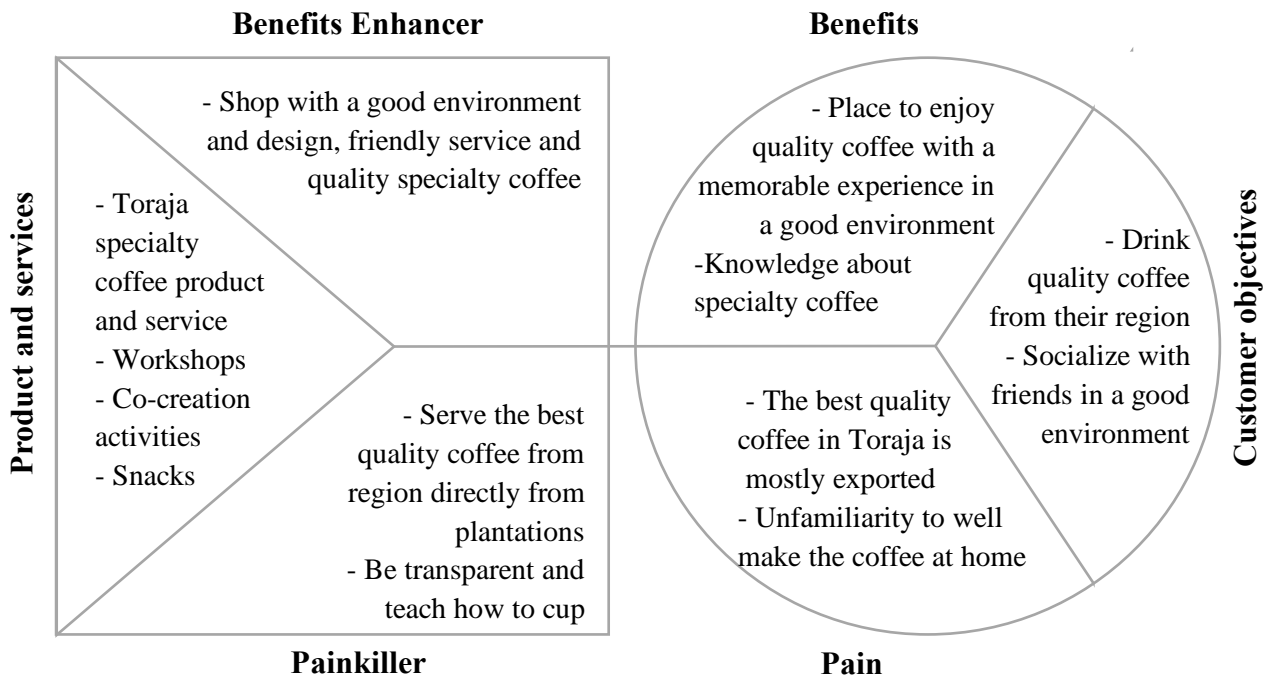
**Annex I - Target Dimension**

<b>Target Dimension</b>					
<b>Target type</b>	<b>Total People</b>	<b>Willingness to experience coffee Toraja</b>	<b>Total Potential Dimension</b>	<b>Fair Share (21 competitors)</b>	<b>Real Target Dimension</b>
Population Toraja Utara 2020 (Age 15-39)	80370	71%	57063	4,8%	2739
Annual Toraja Utara Tourists (2018)	310114	69%	213979		10271
Source	BPS - Statistik	Survey (n=230)		Market Analysis	

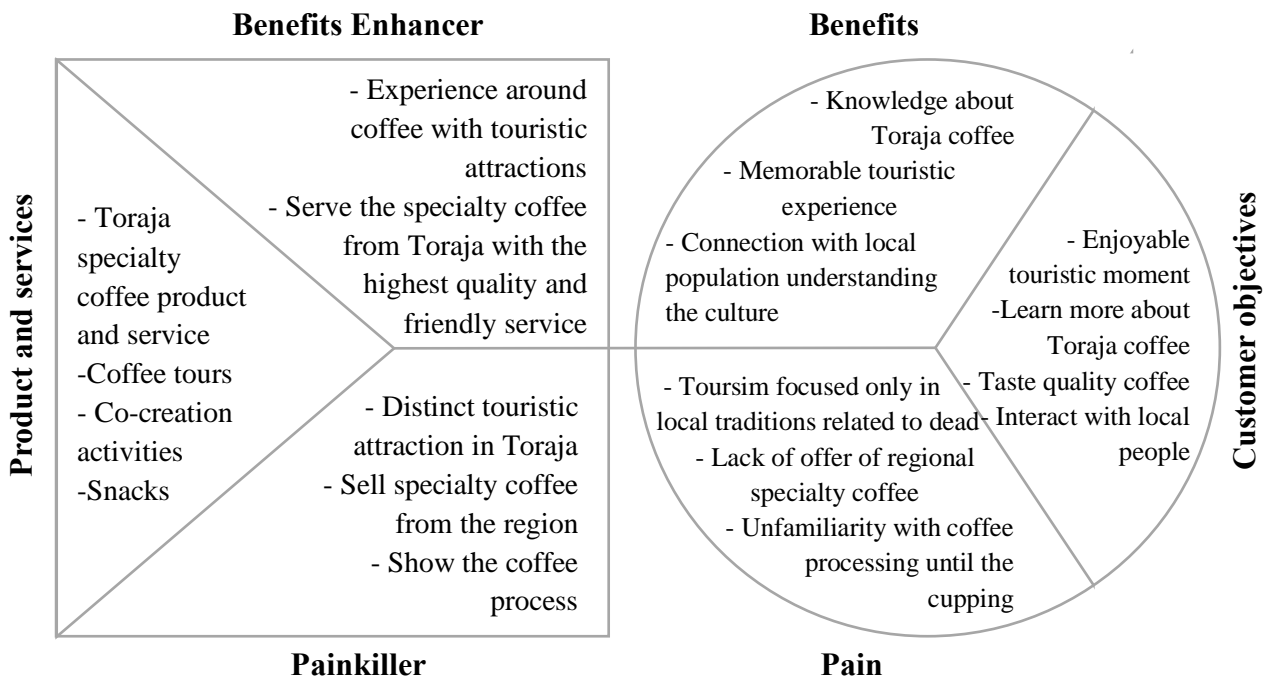




**Annex J - Value proposition to local consumers**



**Annex K - Value proposition to Toraja's tourists**





**Annex L - Action 3: Campaigns on Instagram**

	When?	2021												2022												2023												Budget (millions IDR)
Campaign 1	Mar-21	Coffee tours launch in Toraja																																				5
Campaign 2	Jun-22	Saleco Coffee shop launch																																				5
Campaign 3	Dec-22	Saleco coffee shop services (Workshops, co-creation and coffee tours)																																				1,95
Campaign 4	Jun-23	Saleco coffee shop																																				3,9
																																						<b>15,85</b>



**Annex M** - Action 3: Budget - Communication plan

<b>Action</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>
Instagram account	-	-	-
Instagram Adds	5 000 000 IDR	6 950 000IDR	3 900 000 IDR
Website (Create and mantain)	12 000 000 IDR	1 000 000 IDR	1 000 000 IDR
Google My Business account	-	-	-
Digital promotion discounts	-	-	-
Loyalty cards	-	50 000 IDR	100 000 IDR
Partnership Fee	1 386 000 IDR	1 584 000 IDR	4 224 000 IDR
<b>Total</b>	<b>18 386 000 IDR</b>	<b>9 584 000 IDR</b>	<b>9 224 000 IDR</b>



**Annex N – Coffee tour revenue and cost estimation (2021 to 2023)**

	<b>2021</b>	<b>2022</b>	<b>2023</b>
<b>QTY Coffee tours</b>	<b>42</b>	<b>48</b>	<b>128</b>
<b>Coffee Tours Revenue</b>	<b>287 070 000 IDR</b>	<b>328 080 000 IDR</b>	<b>874 880 000 IDR</b>
Tickets	277 200 000 IDR	316 800 000 IDR	844 800 000 IDR
Coffee Packages	9 870 000 IDR	11 280 000 IDR	30 080 000 IDR
<b>Revenue per tour</b>	<b>6 835 000 IDR</b>	<b>6 835 000 IDR</b>	<b>6 835 000 IDR</b>
<b>Coffee Tours Cost</b>	<b>(33 002 424) IDR</b>	<b>(37 717 056) IDR</b>	<b>(100 578 816) IDR</b>
Coffee supply (18500 IDR/L)	(242 424) IDR	(277 056) IDR	(738 816) IDR
Labor work (guides)	(3 360 000) IDR	(3 840 000) IDR	(10 240 000) IDR
Transportation Rent	(29 400 000) IDR	(33 600 000) IDR	(89 600 000) IDR
<b>Cost per tour</b>	<b>(785 772) IDR</b>	<b>(785 772) IDR</b>	<b>(785 772) IDR</b>





**Annex O - Revenue source estimation**

<b>Revenue source</b>	<b>Frequency</b>	<b>Unit</b>	<b>Average Ticket</b>	<b>Coffee Price (Spend value)</b>
Coffee shop local consumers	2	month	30 000 IDR	25 000 IDR
Coffee shop tourists consumers	1	year	50 000 IDR	40 000 IDR
Coffee tours tourists	1	year	550 000 IDR	550 000 IDR
Workshops	1	year	700 000 IDR	700 000 IDR
Co-Creation Activity	1	month	200 000 IDR	200 000 IDR



**Annex P** - Coffee shop capacity of visits vs potential visits

	Estimated visits/day	Target type	Real Target Dimension	Frequency	Estimated visits/day
Real capacity per day	60	Local consumers	2739	2x per month	65736
Potencial capacity	217	Toraja tourists	10271	1x per year	10271
% of potential Target	28%			Total 100%	76007

Assumption: The shop has 60m2 with capacity for 40 people with inside and outside space  
The shop is opened for 350 days



**Annex Q - Forecasted quantity of Services**

<b>Quantity of Services</b>			
<b>Coffee Tours</b>	<b>42</b>	<b>48</b>	<b>128</b>
Capacity per day	1	1	1
Participants	12	12	12
Tours per week	3	3	4
Weeks	14	16	16
Growth		14%	167%
<b>Workshops</b>	<b>-</b>	<b>1</b>	<b>2</b>
Capacity per year	-	1	2
Participants	-	12	12
Growth			100%
<b>Co-Creation</b>		<b>16</b>	<b>32</b>
Capacity per day		1	1
Participants per activity		6	6
Activity per week		1	2
Weeks		16	16
Growth			100%



**Annex R - Coffee tours: Profit and Loss (2021 to 2023)**

	<b>2021</b>	<b>2022</b>	<b>2023</b>
<b>Coffee Tours Revenue</b>	<b>287 070 000 IDR</b>	<b>328 080 000 IDR</b>	<b>874 880 000 IDR</b>
Tickets	277 200 000 IDR	316 800 000 IDR	844 800 000 IDR
Coffee Packages	9 870 000 IDR	11 280 000 IDR	30 080 000 IDR
<b>Coffee Tours Cost</b>	<b>(33 002 424) IDR</b>	<b>(37 717 056) IDR</b>	<b>(100 578 816) IDR</b>
Coffee supply (18500 IDR/L)	(242 424) IDR	(277 056) IDR	(738 816) IDR
Labor work (guides)	(3 360 000) IDR	(3 840 000) IDR	(10 240 000) IDR
Transportation Rent	(29 400 000) IDR	(33 600 000) IDR	(89 600 000) IDR
<b>Gross Profit</b>	<b>254 067 576 IDR</b>	<b>290 362 944 IDR</b>	<b>774 301 184 IDR</b>
<b>% Gross Margin</b>	<b>88,5%</b>	<b>88,5%</b>	<b>88,5%</b>





**Annex S** - Forecasted quantity of coffee supply

Quantity of coffee	Measure	2021	2022	2023
Cups of coffee	Cups	504	11001	22385
Liquid coffee	Liter	84	1833	3731
Liquid coffee	Kg	5,0	110,0	223,9
Coffee HS	Liter	13	286	582



**Annex T - Coffee shop: Profit and Loss (2021 to 2023)**

	2021	2022	2023
<b>Coffee Shop Revenue</b>	<b>- IDR</b>	<b>342 318 999 IDR</b>	<b>614 203 943 IDR</b>
Coffee Cups, Beverages and Food	- IDR	340 908 999 IDR	611 383 943 IDR
- Coffee Cups	- IDR	281 743 031 IDR	507 138 818 IDR
- Beverages and food	- IDR	59 165 968 IDR	104 245 126 IDR
Coffee Packages (ground or roast)	- IDR	1 410 000 IDR	2 820 000 IDR
<b>Coffee Shop Costs</b>	<b>- IDR</b>	<b>(266 605 342) IDR</b>	<b>(276 809 322) IDR</b>
Initial Investment	- IDR	(88 820 000) IDR	- IDR
Sanitation	- IDR	(1 200 000) IDR	(2 400 000) IDR
Electricity	- IDR	(1 500 000) IDR	(3 000 000) IDR
Coffee	- IDR	(5 014 191) IDR	(10 028 381) IDR
Perishables (food, drink, paper, etc)	- IDR	(18 000 000) IDR	(42 000 000) IDR
Marketing Costs	- IDR	(9 584 000) IDR	(9 224 000) IDR
Farmer's Incentives	- IDR	(14 087 152) IDR	(25 356 941) IDR
Internet service	- IDR	(1 800 000) IDR	(3 600 000) IDR
Labor wages	- IDR	(102 600 000) IDR	(157 200 000) IDR
Commercial Space Rent	- IDR	(24 000 000) IDR	(24 000 000) IDR
<b>Gross Profit</b>	<b>- IDR</b>	<b>75 713 657 IDR</b>	<b>337 394 621 IDR</b>
<b>% Gross Margin</b>		<b>22,1%</b>	<b>54,9%</b>



## Annex U - Saleco Coffee Shop Business: Profit and Loss (2021 to 2023)

<b>Profit</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>
Coffee Shop Sales	0 IDR	340 908 999 IDR	611 383 943 IDR
Coffee Packages (ground or roast)	9 870 000 IDR	63 685 000 IDR	83 895 000 IDR
Services Sales	277 200 000 IDR	344 400 000 IDR	900 000 000 IDR
<b>Total</b>	<b>287 070 000 IDR</b>	<b>748 993 999 IDR</b>	<b>1 595 278 943 IDR</b>
<b>Loss</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>
<b>Initial Investment</b>	<b>0 IDR</b>	<b>(88 820 000 IDR)</b>	<b>0 IDR</b>
Espresso coffee machine		(21 120 000 IDR)	
Appliances (fridge, toaster, blender)		(15 900 000 IDR)	
Cook and Service tools/accessories		(8 000 000 IDR)	
Furniture		(15 000 000 IDR)	
Decoration elements		(5 000 000 IDR)	
Construction Materials (Renovation)		(20 000 000 IDR)	
Labor Work (Renovation)		(3 800 000 IDR)	
<b>Variable costs</b>	<b>(51 388 424 IDR)</b>	<b>(87 102 398 IDR)</b>	<b>(192 588 138 IDR)</b>
Sanitation		(1 200 000 IDR)	(2 400 000 IDR)
Electricity		(1 500 000 IDR)	(3 000 000 IDR)
Coffee	(242 424 IDR)	(5 291 247 IDR)	(10 767 197 IDR)
Perishables (food, drink, paper, etc)		(18 000 000 IDR)	(42 000 000 IDR)
Marketing Costs	(18 386 000 IDR)	(9 584 000 IDR)	(9 224 000 IDR)
Farmer's Incentives		(14 087 152 IDR)	(25 356 941 IDR)
Transportation costs (coffee tours)	(29 400 000) IDR	(33 600 000) IDR	(89 600 000) IDR
Guides tours	(3 360 000 IDR)	(3 840 000 IDR)	(10 240 000 IDR)
<b>Fixed Costs</b>	<b>(12 000 000 IDR)</b>	<b>(128 400 000 IDR)</b>	<b>(184 800 000 IDR)</b>
Internet service		(1 800 000 IDR)	(3 600 000 IDR)
Labor wages	(12 000 000 IDR)	(102 600 000 IDR)	(157 200 000 IDR)
Commercial Space Rent		(24 000 000 IDR)	(24 000 000 IDR)
<b>Total</b>	<b>(63 388 424 IDR)</b>	<b>(304 322 398 IDR)</b>	<b>(377 388 138 IDR)</b>
	<b>2021</b>	<b>2022</b>	<b>2023</b>
<b>Gross Profit</b>	223 681 576 IDR	444 671 601 IDR	1 217 890 805 IDR
<b>% Gross margin</b>	77,9%	59,4%	76,3%



**Annex V - Project budget estimation**

<b>Description</b>	<b>Qty (months)</b>	<b>IDR/month</b>	<b>Value IDR</b>
Initial Investment			88 820 000 IDR
Sanitation	4	2 000 000 IDR	8 000 000 IDR
Electricity	4	2 500 000 IDR	10 000 000 IDR
Coffee	7	417 849 IDR	2 924 944 IDR
Perishables (food, drink, paper, etc)	1	3 000 000 IDR	3 000 000 IDR
Marketing Costs			7 634 000 IDR
Farmer's Incentives	1	2 347 859 IDR	2 347 859 IDR
Transportation costs (coffee tours)	7	2 800 000 IDR	19 600 000 IDR
Guides tours	7	320 000 IDR	2 240 000 IDR
Internet service	1	3 000 000 IDR	3 000 000 IDR
Labor wages			37 100 000 IDR
Commercial Space Rent			14 000 000 IDR
		<b>Total</b>	<b>198 666 803 IDR</b>
		<b>VAT (10%)</b>	<b>19 866 680 IDR</b>
		<b>Total w/o VAT (10%)</b>	<b>178 800 123 IDR</b>





**Annex W - Toraja cultural elements**



Burial Ritual



Traditional grave



Tongkonan - Thypical house



Toraja Highlands



Saleco Buffalo



Toraja Pattern - fabric



Wood carving