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BUSINESS STRATEGY ANALYSIS: A CASE OF EATALY

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INTRODUCTION

In a rapid developing economy nowadays, it is necessary for organizations to adapt new change programs in order to compete with rivals and become successful in the long term. The change program, whether small or significant change, should be managed properly.

This report's objective is to deliver an in-depth analysis about Eataly, an Italy company, regarding its strategy. The author, in this paper, will use different appropriate models and theories to analyse the organization and examine its change. It is divided into 6 main parts which contain different information and analysis related to the change in strategy of Eataly. First, the business overview is introduced, following is the analysis of internal and external environment. Next, the business strategy and some issues will be discussed.

PART 1: THE CASE: EATALY

Eataly was founded in 2007 in Italy by Farinetti (Massa and Testa, 2012). It is a food mall chain in which the products offer in Eataly are varied, ranging from pasta, olive oil, drink to beauty and home care. Eataly aims to provide its consumers high quality products at the most affordable price. The business now is available in different countries other than its home country, such as USA, Canada, Istanbul, Dubai, Japan and so on.

It sounds like Eataly is just a simple supermarket that sells products. However, the founder of Eataly, Farinetti, has shifted the business a unique mall chain. He shows his passion on linking customers through food production. Thus, Eataly is a combination space which contains a supermarket, restaurant and provides customers opportunity to travel to an imaginary Italy. Farinetti offers clients to see, touch, smell, taste and learn about high quality food. The customer target base of Eataly is everyone with the philosophy “Eat. Shop. Learn”. In a store of Eataly, customers not only taste the authentic food produced from Italy, but also can shop ingredients and learn about the stories behind the food and products (Farinetti, 2017). The business focuses on creating enjoyable shopping experience, making customers spend more time after walk through Eataly’s doors.

In general, Eataly concept moves away from a normal supermarket, which only focuses on the volume of production ordered and sold. The business aims to raise awareness of people about food and drink.

PART 2: EXTERNAL ANALYSIS

In this part, the external conditions will be critically evaluated in order to identify the impact of food industry in Italy. Also, the opportunities and threats that Eataly faces will be discussed.

2.1. Macro environment analysis

There are several factors that have strong impact on the food industry as well as the company itself. Those external environments contain political, environmental, social conditions, technological, economic and legal.

In terms of politics, according to Assoune et al. (2013), the Italy government struggled when dealing with economic and social issues. As a consequence, the country faces some persistent problems such as criminal, regional disputes and low economic growth. However, it is said that the government currently has started to introduce new reform initiatives to help to increase the economic growth rate. It is a great news for any organizations as the government would encourage businesses through new policies.

Regarding economy, despite of being a member of EU, NATO and European Economic Community, in the last few years, the development of economy in Italy has witnessed a low growth rate. Besides, there is an imbalance in economy between the Italy regions. While central and northern Italy have high income as well as low unemployment rate, southern Italy suffers from organized crime, low productivity levels.

Although the politics is instability along with the different of regional economy, food industry still remains the most significant production sector in Italy, according to the statistics (Latini et al,

2014). The country is famous for its outstanding cuisine, which attract a huge number of tourists, leading to the favourable conditions for Eataly to introduce its business model.

Legal is one of the factors that can influence the operation of any business. There is a law in Italy food sector since 2012 which allows 30 days payment and 60 days payment for perishable products and non- perishable products, respectively. Atradius (2015) argued that regarding to the law, the global competitiveness would be boosted. However, there still remain some limits, for both company and the industry, that the payment periods could take longer than usual.

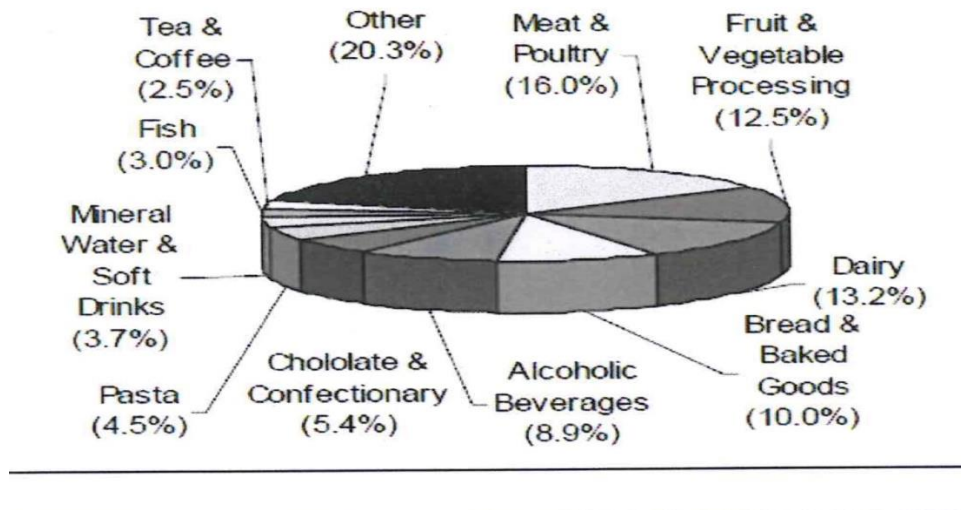
In short, it can be seen that the food sector has been supported partly by the macro environment. In addition, Italy is famous for its excellent food consumption, so that Eataly could wholly use their resources to develop its business nationally and globally as the organization stated that their target clients are everyone (Massa and Testa, 2012).

2.2. Industry analysis

2.2.1. Italy food sector overview

Italy produces various types of production ranging from vegetables, fruits to dairy products and oil. The country is known as one of the largest agricultural product exporters worldwide. It exports mainly pasta, cheese, oil to other countries such as Germany or France. The food industry of the country is fully supported by consumers domestically due to the Italian food culture. The pie chart below shows the proportion of food productions in Italy.

Italy Agriculture & Food Production Sectors



Source: Eurostat, BMI

2.2.2. Michael Porter's Five Forces of competition

The Porter's five forces will be used to analyse the competition in the food industry (Porter, 1979). The five forces model contains five factors: threat of new entrants, threat of substitutes, bargaining power of suppliers, bargaining power of customers and competitive rivalry (Fitzpatrick et al., 2015).

- The threat of new entrants is relatively moderate: the Italian cuisine has attracted various investors from other countries including Swiss, United Kingdom, Benelux and French (Remondini and Cinelli, 2015). The employment of the food industry in Italy is quite high, with more than 385,000 employees since 2014 (Astradius, 2015). Moreover, Italy is a member of EU, means that the country shares the same currency with other countries in EU and there is free trade for foreign investors. Therefore, Italian food industry can be seen as a profitable industry which is easy for new entrants to enter to the market. However,

Eataly has its own strengths and its unique business model which can compete with other new entrants in the same sector.

- The bargaining power of customers is strong: Latini et al. (2014) pointed out that the consumers in food industry in Italy has a strong power plus the food consumption behaviours are characterized by the price. Also, the low unemployment rate stated above might impact the behaviours in consuming food products domestically (Assoune et al., 2013).
- The bargaining power of supplier is strong: since Italy produces diverse agricultural products, Eataly has collaborated with different local suppliers in order to pick the best production and to bring regional production to international market (Sebastiani et al., 2013).
- The threat of substitutes is considered as moderate: customers have several choices in purchasing food production. They can select other options such as French food, Asian food. Yet, due to the powerful cuisine tradition in Italy, the local food is considered as hard to be substituted.
- The competitive rivalry is comparatively high: the number of rivals in Italy retail sector has significantly grew (Atradius, 2015), thus poses a threat to organizations already existing to the market.

2.3. Opportunities and Threats

The opportunities to spread the Italy food production to the world is possible. Seemingly, Eataly represents one of the worldwide brands that can expand its business by opening more stores in other countries. Furthermore, the business offers consumers a whole new experience in its stores, making the business stand out from other retailers in the market. Analysts have estimated that the food industry in Italy will witness the rapid growth in sales, specifically wine and dairy products

(Italianfood, 2015). In 2015, Eataly catch the opportunity to open its first store in Canada (Strauss, 2015). Besides, people nowadays have awareness of what they consume into their body and tend to care about the quality of food. Eataly priority is offering consumers the best quality of ingredients, which would attract more customers. Apart from the opportunities, Eataly has faced some threats. There are several rivals intend to build their businesses similar like Eataly both in domestic market and international market.

PART 3: INTERNAL ANALYSIS

3.1. Eataly resources and competencies analysis

3.1.1. Resource and Competencies Identification

Eataly itself has numerous extraordinary features which differentiate its business from others. First, Eataly partnered with more than 200 suppliers that make products at Eataly varied. The quality of products also is observed strictly in order to bring the best quality of food at affordable price as Farinetti promised (Sebastiani et al., 2013). Moreover, for the purpose of sustainable long-term development, Eataly involves in environmental process that would raise the support level of customers regarding the environment issues recently. Second, Eataly designed its store in a convenience way that would let customers experience all offered services. Each floor of Eataly stores has both grocery and restaurant zones, which contribute to the general experience. It is said that space in Eataly is more outside than the marketplace (Massa and Testa, 2012). These features make Eataly a unique experiential retail that does not look, sound like other typical supermarkets around the world.

In the case of Eataly, the threshold resources and competences as well as the distinctive resources and competences will be explained as following table:

Threshold resources: these are resources that Eataly needs to meet customers minimum demand. The resources include financial, infrastructure and products and ingredients such as cheese, wine, oil, sauces.	Threshold competences: Threshold competences consists of basic knowledge and essential skills, motives to perform a job. Regarding Eataly, they are employees with different skills like cooking skills, management skills, teamwork skills, sales skills.
Distinctive resources: Eataly partnered with Food and Agriculture Organization of the United Nations to support family farmers since 2013. The business also participates in different projects that protect the environment as well as educate its consumers to save environment when shopping with Eataly.	Distinctive competences: Eataly offers high food quality for consumers by directly observing in production process of its suppliers. Also, the business ensures to allow customers buy its products at reasonable price. In addition, Eataly strongly show its consideration on sustainable development

3.1.2. Resources and Competencies Appraisal

Inspiring by the principles of Slow Food, Eataly is operated focusing on both quality of food and ethical consideration (Sebastiani et al., 2013). The history behind the Italian cuisine is not only about food, but also about the culture of Italy. According to researches of Italian eating habit, Italian are proud of their traditional cuisine, they often keep their eating habit even outside the

country. Hence, in 1989 the Slow Food concept was introduced, aimed to build the awareness of Italian food tradition among people. Following the concept, Eataly promotes the based philosophy of Slow Food “good, clean and fair food”. In detail, products in Eataly have to fulfil the two main requirements, which are delicious and ecologically sustainable (Sebastiani et al., 2013).

This is the concept that allows Eataly to have competitive advantages, that wholly respect the environment and protect domestic producers.

3.2. Strengths and Weaknesses

The annual sale of Eataly is reported up to 450 million euros, approximately 610 million dollars, in which one quarter of the sale belong to the United State market. The business expects the revenues to be increased 25% each year. Furthermore, Eataly announced its plan to go public in 2018 for the purpose of financial growth (Remondini and Cinelli, 2015). It can be seen that Italy is popular for its Italian taste, thus, there are a huge number of people who love Italian tradition cuisine. Eataly is a famous brand name for consumers to taste authentic Italian food. Besides, the business is also a place that shoppers could find the knowledge and story behind each food (Sebastiani et al., 2013).

However, Eataly still needs to pay attention to existing weaknesses as the market is smaller comparing with other countries worldwide in the food industry.

PART 4: EATALY CORPORATE AND BUSINESS STRATEGY

2.1. Three main corporate strategies

There are three main corporate strategies that Eataly uses. They are Slow Food concept, seasonal product and geographical advantages (Assoune et al., 2013). Firstly, the Slow Food concept was

followed in order to educate young generation about the Italian cuisine culture and traditions. Eataly wants to introduce the eating habits of Italian to foreigners, against the rapid growth of the fast-food. The authentic taste of Italy is also introduced through Eataly's organic ingredients. In other words, the main purpose of Eataly is to propose its unique philosophy "shop, taste, learn". Secondly, selling seasonal product help local products to be recognized and consumed. Lastly, Eataly takes advantage of promoting the location of regional products to reinforce the brand image and also help the business in positioning in the market.

2.2. Generic strategy of Eataly

Porter's generic strategy introduced three approaches, including cost leadership, differentiation and focus (Ormanidhi and Stringa 2008). As stated above, Eataly is running the differentiation strategy. The business is claimed neither a supermarket nor a restaurant, it is a place where consumers can learn about culture. As a result, Eataly stands out from the crowd. This strategy also lets Eataly serve customers affordable price along with high quality products. Moreover, the business commits to deliver friendly environment ingredients which help to develop the long-term and sustainable organization. Eataly also joins some projects, for example, the FICO Eataly World – the world largest food park.

PART 5: EATALY'S ISSUES AND CHALLENGES

In general, based on the external and internal environment, the resources and ideas of Eataly discussed above, the business has a potential opportunity for its expansion domestically and globally. Although the profit margin of Italy was fell since 2015, it is forecasted to be stable in the following years (Atradius, 2015). So as to survive in the market which has a growing number of competitors, Eataly is currently preparing to compete with its rivals. The business continues to open more buildings in other countries. Also, environment protection nowadays is an issue for

Eataly. According to Latini et al. (2014), food supply chain partly affect the global warming as well as air pollution.

In addition, opening more stores in other countries might pose a challenge for Eataly as the business needs to find the right partners in each city.

PART 6: THE EATALY STRATEGIC FOR GROWTH

6.1. Generic Strategic options

There are different strategic options that Eataly currently targets. Firstly, Eataly wants to expand its stores globally. In other words, the business focuses on market development. The more stores open in the world, the higher brand awareness level will be. Moreover, the higher brand awareness also leads to less barrier to come to new market, meaning it is easier for Eataly to expand new stores. Secondly, the differentiation strategy mentioned above will continue to be a consistent strategy of Eataly as it is the core value of the firm. Next, the business announced that it would involve in Corporate Social Responsibility program. By engaging in CSR program, Eataly hopes to build customers' trust in long term, which could result the significant future growth.

6.2. Implementation: Corporate Social Responsibility

Eataly currently open the world's largest food park called "FICO Eataly World". The main objective of this project is to spread the Italian agricultural food. It is said that in one place, people can explore the knowledge of culture, traditions and also craftsmanship (FICO Eataly World, 2019). Besides, Eataly has collaborated with Food and Agriculture Organization of the United Nations to support the family farmers. In details, the partnership helps women's cooperative in Ethiopia in

fruit plantation. As a result, more family farmers have chances to entry to the new markets, especially global markets (FAO, 2015).

CONCLUSION

In conclusion, strategic change of Eataly has helped the business in many aspects. The differentiation strategy secures a strong position of the company in the competitive market like retail industry. Moreover, this strategy also builds up the brand image and the brand awareness among consumers around the world. The CSR approach is critical strategic option for Eataly in order to ensure the business' sustainable growth. However, it is difficult for Eataly to maintain its position in the growing rivals industry. There are other businesses that could follow the similar concept of Eataly. Thus, it is necessary for Eataly to keep up with its distinctive resources and continue to focus on the principle of Slow Food concept, as well as introducing local food to international market.

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