

Assignment Title: Knowledge Management and Information Systems

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## **1. INTRODUCTION**

In today's highly competitive business world knowledge management and information systems are being considered as an important part of the business strategy by various organizations. Knowledge Management System refers to the different kinds of Information System software that helps the organizations in storing, processing, and retrieving the information as and when required (Chua and Banerjee, 2013). These systems are used to reduce labor and improve the efficiency of managing the complete data of an organization. Concerning this, the purpose of this report is to analyze different types of knowledge management systems for the chosen organization, that is, Caffè Nero, and recommend the most appropriate knowledge management system. The ensuing sections of the report will give a brief overview of the organization defining the corporate objectives, structure, business overview, and business model. This will be followed by the macro environment analysis based on the two models of PESTLE and SWOT. The report will then talk about the industry analysis done based on Porter's Five Forces Model. This will be followed by recommendations and a discussion of possible challenges while implementing the suggested knowledge management systems. The report will then conclude with a summary highlighting the key points of the discussion.

## **2. ORGANIZATION OVERVIEW**

### **2.1. Business Overview**

Caffè Nero is an Italian Coffee House with headquarter in London, UK. Established in 1997 by Gerry Ford, Caffè Nero presently has over 1000 outlets in 11 countries. It is the third-largest coffee chain in the UK (Caffè Nero UK, 2009). The family-owned coffee house has its roastery where the coffee beans are collected from different sources and roasted to create the perfect blend that makes Caffè Nero stand where it is today (Caffè Nero UK, 2009). Caffè Nero employs over 6000 employees (BBC, 2021).

### **2.2. Corporate Objectives**

Caffè Nero's objective is to serve the premium range of award-winning coffee in a warm and inviting ambiance with delicious food and excellent personal service (Caffè Nero UK, 2009). Promoting ethical and sustainable farming practices and sustainable initiatives through waste recycling lies at the heart of the ethical values of Caffè Nero (Caffè Nero, 2018).

## **2.3. Corporate Structure**

The corporate structure of Caffè Nero is characterized as a hierarchical structure wherein the top management is led by the CEO, Jerry Ford followed by heads of various management domains, such as CEO Finance, CEO Marketing, CEO Operations, CEO Supply Chain, Head of Strategy, Chief Technical Officers, and others (Caffè Nero UK, 2009). The respective executive leaders are responsible for handling their respective departments and take strategic decisions in consortium with the company CEO who has the final say in the decisions. Since Caffè Nero is an international brand, the corporate structure of executive leaders is replicated at various regional locations where the company has its offices. The company manages nearly 6000 + workers across the various international location of operations (Caffè Nero UK, 2009).

## **2.4. Business Model**

Caffè Nero operates on both B2B (Business to Business) and B2C (Business to Customers) business models. As part of its B2C operations which account for the significant majority of the business, Caffè Nero has established coffee chains across different locations and allows the customers to visit the café and order the food and beverages or order online/take away which has become a prevalent model owing to the pandemic crisis caused by COVID-19 (Caffè Nero Group, 2021). Likewise, in the B2B segment, the company has collaborations with various corporate houses and other commercial suppliers and supplies their powdered coffee and other condiments to these partners.

# **3. MACRO-ENVIRONMENT ANALYSIS**

## **3.1. PESTEL ANALYSIS**

### ***3.1.1. Political Factors***

The following factors of the UK's political environment affect Café Nero's operations:

- Sound trade relations with the Asian countries from where Café Nero sources its Coffee Beans (British Embassy Manila, 2021).
- The COVID19 restrictions imposed by the government on the hospitality sector of the UK negatively impacted the business of the Café (Ferreira and Ferreira, 2021).
- Political stability within the country helps in the smooth operations of the Café.

- Brexit has impacted the business by increasing the prices and inducing labor shortages in the country (British Coffee Association UK, 2018).

### ***3.1.2. Economic Factors***

The following economic factors affect the operations of Café Nero in the United Kingdom:

- **Employment:** The coffee industry of the UK is a £10.5 billion industry in the UK alone with over 25,000 outlets. Therefore, being an employment provider, the coffee industry of the UK gets adequate support and encouragement to improve the employment prospects in the country (Ferreira and Ferreira, 2021).
- **Inflation:** The inflation rate in the UK has risen from 2.1% - 2.5%. With the rise in the inflation rate, the disposable income of the people has reduced thereby affecting their purchasing power (BBC, 2021).

### ***3.1.3. Social Economic Factors***

The Socio-economic factors that affect the operations of Café Nero are as follows:

- **The lifestyle of the people-** According to the British Coffee Association (2018), 95 million cups of coffee are consumed in the UK in a day which is a positive factor for Café Nero.
- **Café culture** has continued to grow on the high street, with 80 percent of people visiting coffee shops at least once a week, and 16 percent visit on a daily basis (British Coffee Association, 2018).

### ***3.1.4. Technological Factors***

Technological factors that impact the Business operations of Caffè Nero are as follows:

- **Technology incorporation** via the Caffè Nero app makes it easier for the customers to avoid the long queues and get their coffees faster (Caffè Nero Group, 2021).

While technological integration is supportive of Caffè Nero's operations, the use of a Knowledge Management System for better efficiency needs to be undertaken.

### ***3.1.5. Environmental Factors***

The environmental factors that affect the business operations of Café Nero are as under:

- **Sustainable farming practices** of the coffee growers from where Caffè Nero sources its Coffee Beans (Caffè Nero, 2018).

- The sustainable practices of reusing coffee grounds, minimizing the single-use plastic waste, and encouraging the use of reusable cups (Caffe Nero, 2018).

### 3.1.6. Legal Factors

The business operations of the Caffe were negatively impacted by the restrictions imposed due to the COVID19 lockdown by the UK government (Onita and Gill, 2021).

## 4. INTERNAL ENVIRONMENT ANALYSIS

This section of the report contains the internal environment analysis that will help in getting better insights into the organization

### 4.1.SWOT ANALYSIS

<p style="text-align: center;"><b><u>STRENGTHS</u></b></p> <ul style="list-style-type: none"> <li>• One of the leading Italian coffee chains in the UK</li> <li>• Has its roastery</li> <li>• Premium Quality Coffee</li> <li>• Comparatively lower prices than other the two leading competitors Starbucks and Costa Coffee</li> <li>• Wide range of food items on the menu that supports the Caffe with additional revenue</li> <li>• Loyalty programs make up a strong basis for marketing</li> </ul>	<p style="text-align: center;"><b><u>WEAKNESS</u></b></p> <ul style="list-style-type: none"> <li>• Limited International presence.</li> <li>• Lacks the use of knowledge management systems for integrating all the data at one place.</li> </ul>
<p style="text-align: center;"><b><u>OPPORTUNITIES</u></b></p> <ul style="list-style-type: none"> <li>• Adoption of Knowledge Management Systems and Artificial intelligence</li> <li>• Geographic expansion and diversification to other countries can help the company grow</li> </ul>	<p style="text-align: center;"><b><u>THREATS</u></b></p> <ul style="list-style-type: none"> <li>• Deals in a highly competitive business market where the competitors are ready to capture the market</li> <li>• The ongoing pandemic and any further lockdown can adversely impact the business</li> <li>• Cyber-securities issues can</li> </ul>

	challenge the data privacy of the company.
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*Table 1 Caffe Nero - SWOT Analysis*

The above table represents the SWOT analysis of Caffe Nero. On the basis of the analysis, it can be said that Caffe Nero has a strong presence in the United Kingdom with a firm consumer base. Roasting their coffee gives them a competitive edge over the other as the premium taste of the coffee is retained throughout the year. The loyalty program of the Caffe helps the Coffee House in retaining its customers and the diversified food options in the menu generate additional revenue for the coffee house. However, the recent COVID19 pandemic has adversely affected the Caffe Business. Any similar lockdown restrictions in the future can lead to the shutting down of the stores. Caffe Nero operates in a highly competitive market and therefore, it needs to constantly engage with the consumers through different campaigns to retain its position. The Caffe has technology integration but it is very limited. The use of appropriate knowledge management systems can help the coffee house in predicting the footfall, consumer preferences and aid in improving the marketing functions. The coffee house can also undertake expansion in other countries on the basis of the information generated through the knowledge management systems.

## **5. INDUSTRY ANALYSIS**

This section provides the industry analysis undertaken for Caffe Nero by applying Porter's Five Forces Model (Porter, 1980) which helps in analyzing the scope of competition within the industry.

### **5.1.Porter's Five Forces Model**

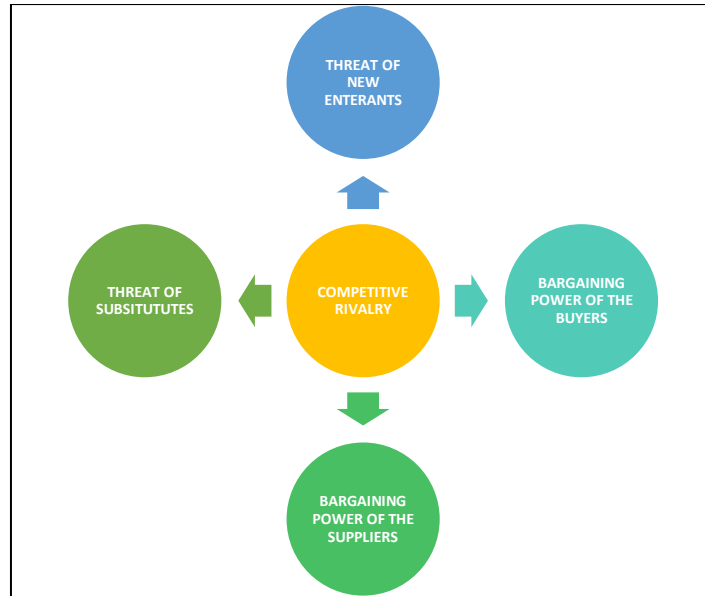


Figure 1 Porter's Five Forces Model - Self Illustrated

Forces	Level	Rationale
<b>Bargaining Power of Buyer</b>	High	Caffe Nero has many competitors in the coffee industry of the UK. Customers can easily get attracted to lucrative offers and discounts provided by the other coffee houses. Therefore, Caffe Nero should maintain its consumer retention programs such as the loyalty program to maintain its position in the market.
<b>Bargaining Power of Supplier</b>	Medium to High	Caffe Nero sources its coffee beans from selected farms from around the world to create its premium blend and taste. Therefore, the bargaining power of the supplier for Caffe Nero is high as in order to maintain its coffee taste, the coffee house will have to comply with the suppliers.
<b>Threat of Substitute</b>	Low	The Threat of Substitutes is low as coffee lovers do not easily switch to drinks outside of the industry. However, if within the industry a new substitute of a healthy version of coffee is introduced, then the threat can be high.
<b>The Threat of New</b>	Low	The Threat of a New Entrant is low for Caffe



<b>Entrant</b>		Nero as it is an established coffee brand with a loyal customer base.
<b>Competitive Rivalry among Firms</b>	High	Caffe Nero operates in a highly competitive business environment. The main competitors of Caffe Nero are Starbucks, Costa Coffee, Pret A Manger, and others. Therefore, maintain its position in the coffee industry and retaining the customer base can always be a challenge for Caffe Nero.

## 6. RECOMMENDATIONS

Drawing from the above analysis it is recommended that Caffe Nero adopts an integrated system for knowledge management that can help the organization streamline its data related to employee management, customer relations, maintain competitiveness, supply chain management, and inventory management.

- For this, implementing the use of an Enterprise System is recommended. Enterprise Systems are Information Technology based software that helps organizations in storing, processing, analyzing, and retrieving the data essential to their industry. These systems serve as a central command hub that helps in automating the business and thereby, simplifying the reporting and decision making (Xu, 2011). Many organizations worldwide have adopted the use of Enterprise Systems as it acts as a viable solution for information integration for both the manufacturing and service sector organizations (Xu, 2011). By implementing the use of Enterprise Resource Planning software by Caffe Nero, the organization can have a single repository of information for all the departments of the organization. It can act as an efficient way of analyzing the industry trends and take timely decisions that support the organization in maintaining its competitive edge (Sedera and Gable, 2010). According to Walsh, Schubert, and Jones 2010, Information Technology enabled enterprise resource planning systems can confer competitive advantages by enabling the firms to increase their productivity, differentiation, levels of coordination, and product customization. This will also help Caffe Nero in diversifying their product line by analyzing the demands and current tastes and preferences of the consumers.

Further, the café can also benefit by efficiently managing its inventory. Inventory management is one of the key operations in the food and beverages industry as it helps in reducing waste and analyzing the real-time stock of the café. Enabling inventory management via an enterprise resource management system can reduce the labor hours of manually updating the inventory and keeping a check on it (Ijaz et al., 2014). For Food and Beverages sector, the biggest advantage of employing the enterprise resource management system is its ability to reduce food wastage and pilferage which can eventually reduce the food-cost ratio of the organization and improve the net revenues (Ijaz et al., 2014).

Efficient supply chain management is another advantage that can be reaped by implementing an enterprise management system in the organization. According to Xu 2011, an enterprise resource system can simplify the management of supplier profiles of different branches of the organization. It can help in procuring the material at the right time and prices thereby inflicting profit for the organization (Momoh, Roy and Shehab, 2010)

Enterprise Resource Management System can greatly help the organizations like Caffe Nero by managing their customers' relations and information. Customer information such as past orders and interactions can help the sales team to ensure better and fast deliveries (Chua and Banerjee, 2013). It can also help in analyzing the trends and footfall in the café thereby helping the café in demand forecasting and adequate food preparation. This can not only reduce the preparation waste of the café but will also help in enhancing the brand image of the café (Chua and Banerjee, 2013).

Marketing management and Payment management are the other advantages of implementing an enterprise resource management system in the organization. However, this is something that Caffe Nero has already implemented in collaboration with the International Business Machines Corp (International Business Machines Corp, 2017).

- Another recommendation that can help Caffe Nero is the implementation of an Artificial Intelligence-based system to keep a check on the Café environment especially in the prevailing time of COVID19. The organization can make use of AI-enabled software that can detect the temperature of the customers, employees, and other executives that visit the café premise to ensure safety for everyone. Along with this AI-enabled software can also help in ensuring that the norms of social distancing

and sanitization are followed properly. The use of humanoid robots can help in reducing human contact and the potential spread of the COVID19 virus (Zeng, Chen and Lew, 2020). Ivanov and Webster 2019, states that AI-based robots can help in serving food, cleaning, and providing security services in restaurants.

Implementing these recommendations will help the organization in achieving its corporate objective of providing premium coffee at affordable prices. These changes will also support the organization in increasing its market share by understanding the changing needs and preferences of the consumers. By analyzing the latest trends of the market, the organization can invest in product diversification and maintain a competitive edge over the others. All the major functions of the organization such as employee management, customer management, payment management, supply chain management, inventory management, marketing management, and market analysis can be easily done by the implementation of the Enterprise Resource Management System. Since the data is collected in a single repository, therefore, it will be easily available and accessible to all the departmental heads which will further facilitate efficient and timely decision making. Starbucks the leading coffee brand of the United Kingdom is the shining example of the use of a Knowledge Management System for consumer retention (Yin Sam and Cai, 2015). Similarly, Caffe Nero can significantly improve its business performance both in the short and the long term by implementing a knowledge management system to oversee all the major operations of the organization.

## **7. CHALLENGES**

The organization can face the following potential challenges while implementing the aforementioned recommendations:

- Change Management

Implementing revolutionary changes in an organization is never easy for the managers since the employees often show resistance towards changes that are new to them. Similar challenges can be faced by Caffe Nero. Implementing Knowledge Management System can be cumbersome for older employees therefore, there is a good possibility that the employees show objections to its implementation (Babaei, Gholami and Altafi, 2015). However, if the managers act as the change agent and help the employees understand the benefits of the changes, then they can successfully implement the use of the Enterprise Resource Management System in the organization. The introduction of automated machines, robots, and artificial

intelligence can be a cause of concern for the employees as they may think that automation can lead to job loss.

- **Poor Implementation**

Improper implementation can be the other potential challenge that the organization can face while implementing the changes recommended. Due to the user-designer communication gap, it can be difficult for the employees to understand the functioning of the management software (Babaei, Gholami and Altafi, 2015). The employees may find the new systems very technical to work with therefore, it would be imperative for the managers to provide adequate education and training to the employees on how the new systems work. The top management can also use the strategy of incentivizing employees who cooperate with the change and are willing to learn.

- **User Resistance**

Commitment from managers can also be a potential challenge in the implementation of the recommended changes. It may be the case that the managers do not agree with the implementation of the changes and managers are the most important link of the communication in the top-down hierarchy (Hurbean and Fotache, 2010). If the managers do not agree with the changes there is a likelihood that the lower-level employees will also resist the changes. Therefore, it is suggested that before introducing and implementing the changes, the top management explains the potential challenges currently faced by the organization and how the knowledge management system can help improve the business performance in the long run.

## **8. CONCLUSION**

Caffe Nero is the third-largest coffee chain in the United Kingdom. It operates in a highly competitive market where the number of key players is quite big. Though the macro-environmental factors support the growth of Caffe Nero, it must look after and work upon the threats and opportunities that stem up internally. Caffe Nero has a strong consumer base and the organization can benefit by using an enterprise resource management system in analyzing the demands and preferences of the consumers. This can help the organization in enhancing the brand image and improve customer loyalty. Enabling the use of an enterprise resource management system will also help the organization in efficiently managing the inventory and the supply chain for all its branches. The organization will benefit by procuring the materials

at the right cost and at the right time avoiding the risk of paying extra or incurring losses in the future.

Implementing the use of an Enterprise Resource Management System will allow the organization to increase its efficiency and productivity and will eventually help the organization achieve its both short-term and long-term objectives. It will give the organization a competitive advantage over others in the coffee industry by analyzing the latest trends of the market and introducing new items in the menu as per the current preferences of the consumers. Enterprise Resource Management system will eventually help the organization in reducing its losses due to food wastage, preparation wastage which will reduce the food-cost ratio and improve the net revenues of the organization. This will help the organization sustain its policy of providing premium coffee at comparatively lower prices in the long run.

The organization can also face potential challenges while implementing these recommendations. These involve handling change management, overseeing proper implementation of the systems, and mitigating user resistance. Implementing holistic changes in an organization can be a difficult process for the managers as they can face resistance from the current employees. Therefore, it is suggested that while implementing the aforementioned changes, the managers also ensure implementing strategies such as incentives for cooperation and mandatory training of the employees to overcome these challenges.

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