

BRAZIL AND THE MARKET FOR SPECIALTY COFFEE: - AN IMPORTERS PERSPECTIVE -

**Congresso Brasileiro do Café
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Thursday 31 August

BRAZIL AND THE MARKET FOR SPECIALTY COFFEE



Agenda

- Introduction to Mercanta
- What is Specialty Coffee?
- Specialty Coffee markets
- Specialty Coffee and Brazil
- Recommendations
- Questions & Answers



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Introduction to Mercanta



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Mercanta The Coffee Hunters

- Established in 1996 by Stephen Hurst and Flori Marin
- To supply the finest green coffees to Specialty Coffee roasters worldwide
- Offices in **London** (UK) and **Guatemala City**; warehouses in **UK** and Portland (**USA**)
- Large or small, our customers share a requirement for only the very best coffees
- Our mission is also to **educate** and **inform** (LSC)
- Specialty coffee is about **quality**, **variety**, **provenance**, **relationships** and **knowledge** of the product
- We pay **best prices** for **best quality** and 'pick of the crop'



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Our philosophy is simple...



Quality

Why pay a 'fair' price if you don't know what you're buying?

Mercanta employs some of the world's best coffee cuppers. We evaluate samples daily from around the world in our state-of-the-art laboratory

Traceability

Once we have found an excellent coffee, do we know where it comes from?

We already have direct relationships with the producers of 80% of all our coffees. By 2007, we are aiming for 100%

Sustainability

Our origin partners are encouraged to adopt strict social and environmental practices – this is also good business

Price

Mercanta negotiates individual contracts directly with growers for their best quality.

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Mercanta and Brazilian coffees

- One of 3-4 partner importers in the European Specialty Coffee markets
- Promotion and establishment of the BSCA 'brand' amongst Specialty Coffee roasters in Europe and worldwide
- BSCA has done much to transform the traditional image of Brazil and quality



LONDON SCHOOL
OF COFFEE



What is Specialty Coffee...?



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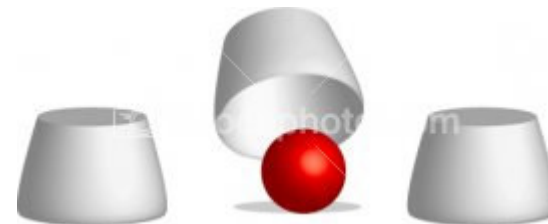
So, what is 'Specialty Coffee'...?

- ✓ **80+ points** on a comparative evaluation versus origin peers
- ✓ **grown for cup quality** above all others by country and is the very **best of the harvest**
- ✓ **Specialty = Quality**



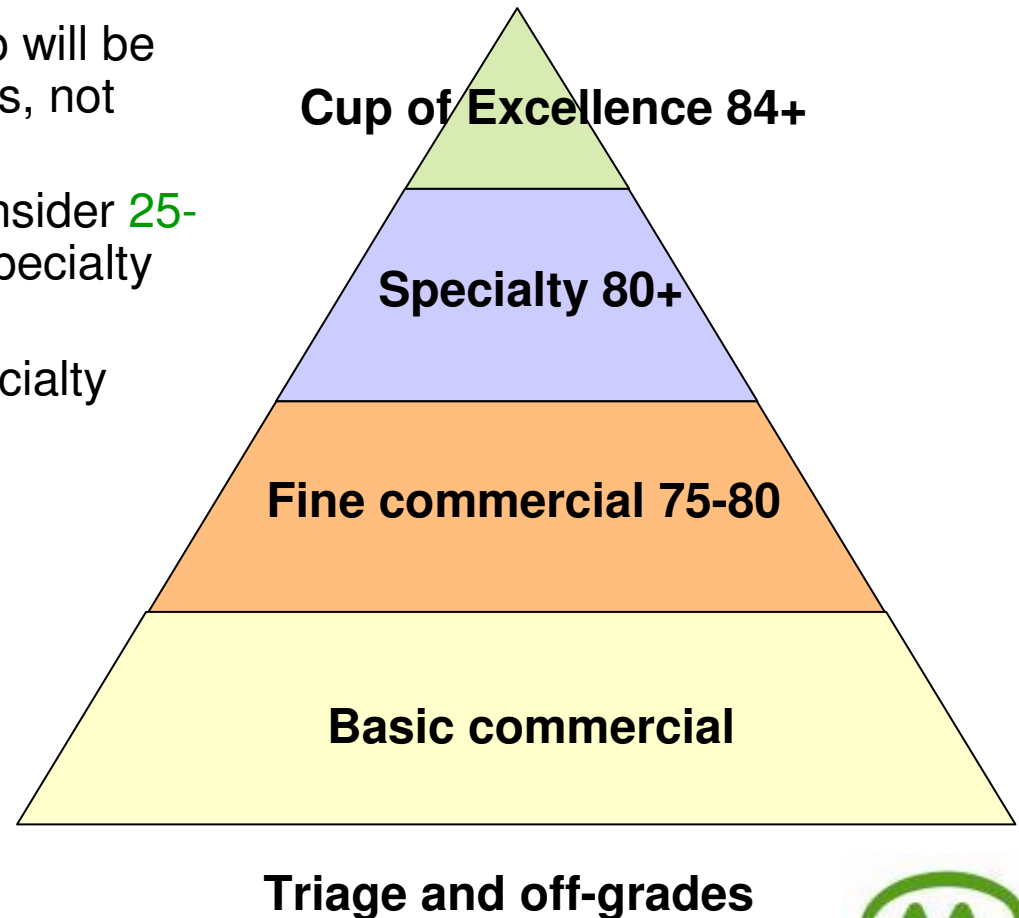
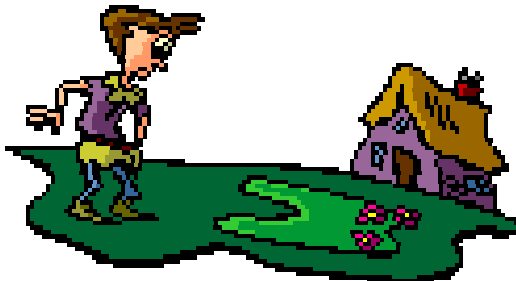
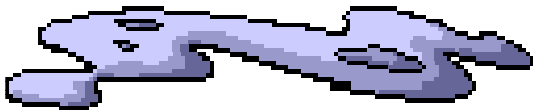
- ✗ brewing method (espresso)
- ✗ preparation (double shot, half decaf skinny latte with syrup!)
- ✗ novelty (Kopi Luak, monkey-picked, weasel coffee)

- ? exotic origin (Santa Helena, Haitian, Kona, JBM)
- ? 'cause coffees' (Rainforest, bird-friendly, Fairtrade, etc)



Not all coffee is 'Specialty Coffee'!

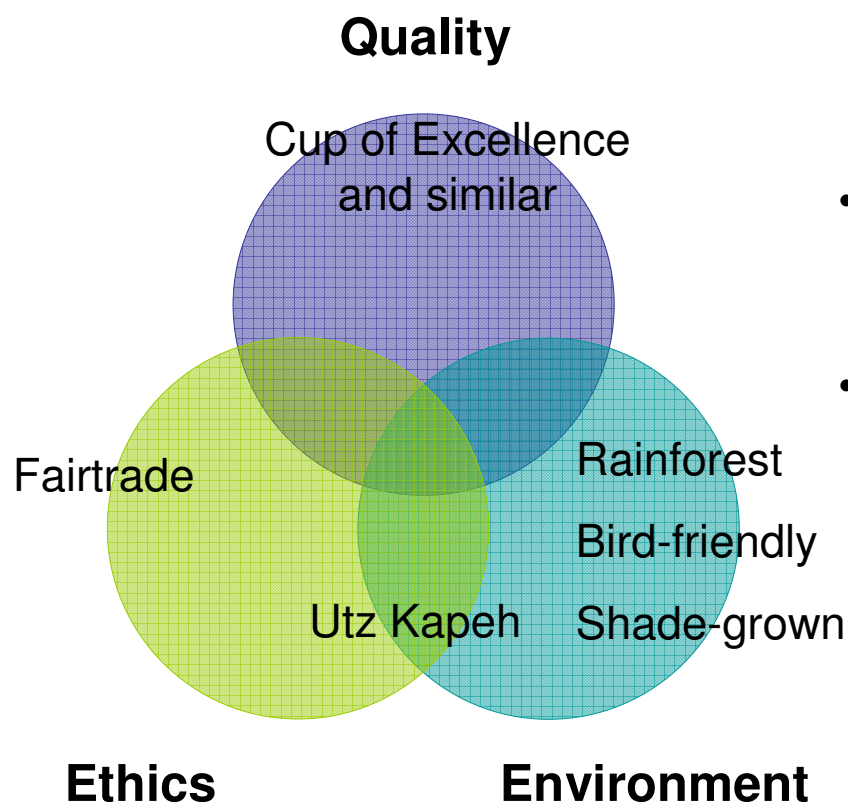
- Only 5-10% of a country's crop will be specialty grade – single estates, not bulk blend
- BSCA member farm would consider 25-35% of typical production as specialty grade. Varies by season
- But there are no seeds for specialty coffee...!



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Quality should not be a coincidence!



- 'Cause coffees' – purchased for different reasons and may *coincidentally* be Specialty Coffee quality...
- ...but FT, RFA, bird-friendly and other 'badges' are not a guarantee of **QUALITY!!!**
- COE average price is approx **3x** FT guaranteed price!

Buy what you like...but buy it for the right reasons!

So, who is the Specialty Coffee drinker...?

- Foodie, **gourmet**, interested in all quality foods and sees coffee as a long-overlooked addition
- Has evolved from 'lifestyle' coffee drinker thanks to enhanced offerings in store
- **Educated** and **informed** – influenced by food press/journalists, WBC programme
- *Per capita consumption* – and **quality** – is highest in **Scandinavian** markets

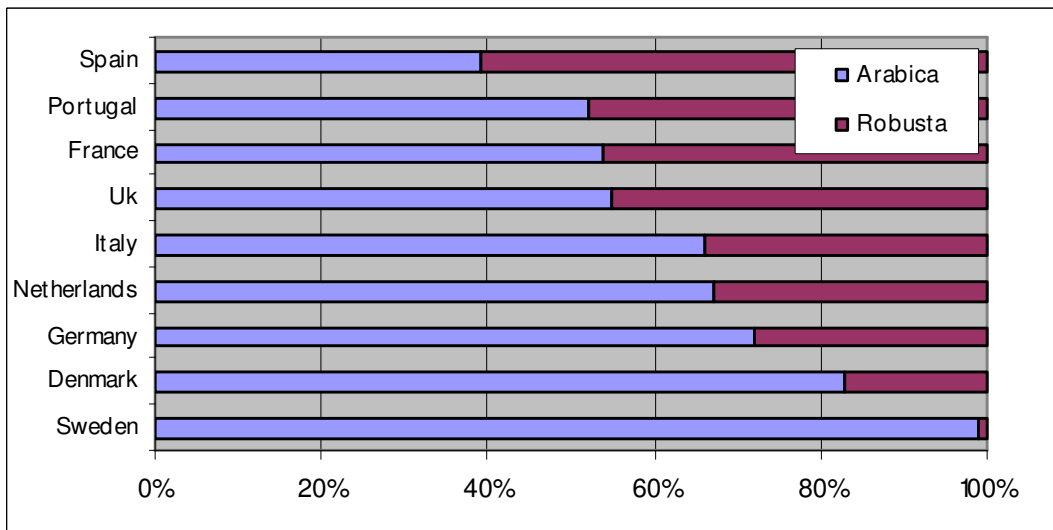


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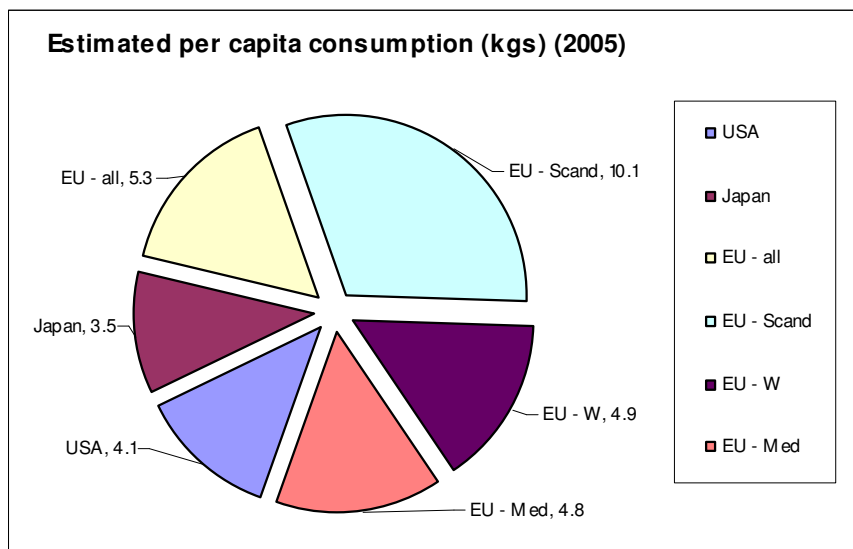


Quality ⇒ Consumption



- The Scandinavian markets import a greater proportion of Arabica than the other markets
- There is a clear correlation between **higher quality** and **higher per capita consumption**

- **Finland** reports over 11kg per person per year, **Denmark** and **Norway** close to 10kg...
- ...meanwhile **UK** and **Ireland** are just 2.2kg and 2.1kg, respectively



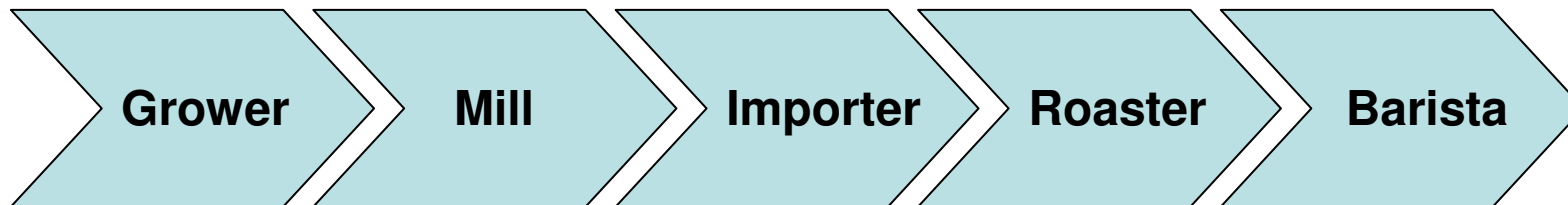
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Protecting quality



- The Specialty Coffee movement emerged in the USA in the 1980s
- Driven by pioneers such as Peet's
- Market freed up following the collapse of the ICO in 1989
- This led us to speculate as to the '**Coffee Value Chain**' and we have identified 5 critical links...
- ...important that each 'link' performs optimally to preserve integrity of Specialty Coffee



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Specialty Coffee Markets



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Coffee trading – past and future...



- **'TRANSACTIONAL'** sale
coffee vanishes after sale. Your control/ involvement in your product ceases. Disenfranchised. No market access.
- Coffee grown for **YIELD**
aim is yield, disease resistance. No point of differentiation over neighbour's crop
- Price dictated by **MARKET**
traders and market fluctuations in NY set price for your coffee
- **'SPECULATIVE'** model
grower speculates on the market and will live or die with the NY 'C'



- **'RELATIONSHIP'** sale...
sold to known/trusted broker/importer. Provenance and identity is maintained and you remain in 'value chain'
- Coffee grown for **QUALITY**
quality (in cultivation, processing, milling) is pursued above considerations of yield
- Price determined by **QUALITY**
quality-driven long-term relationship direct with buyer (broker/importer)
- **'COST-BASED'** model
cost of production + profit. Imagine if there were no Futures market

Ask yourself: "What is your coffee worth...?"

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Specialty Coffee market – Global

- Home of coffee culture traditionally considered to be Europe around **Italy** and **Mediterranean**...
- ...now redefined since early 1980s by 'Specialty Coffee' movement in **NW USA** (Seattle) and **Bay Area** (California), more recently vanguard in **Scandinavia**
- Huge growth in **Japan**, **Australia/NZ**, **N Europe**
- Official recognition with the establishment of Specialty Coffee associations
 - **SCAA** (1982)
 - **SCAE** (1997)
 - **SCAJ** (2003)
 - new 'chapters' being added every year worldwide.



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Specialty Coffee market – USA

- ‘Specialty Coffee’ niche did not exist 25 years ago. **SCAA** formed in 1982 (now with more than 3,000 company members, mostly in USA)
- USA market valued at \$9.6bn in 2004. Forecast at \$11bn in 2006 growing to \$13bn by 2010
- Growth mainly in **out-of-home**/prepared beverage segment with 14,000 outlets accounting for 75% of sales by value
- Share of specialty coffee in overall market will be further **boosted by**:
 - **continued expansion of coffee house sector**
 - **increasing awareness** of – and interest in – single origin coffee



Specialty Coffee market – Europe

- **SCAE** formed in 1997 (15 years behind USA)
- Specialty **integrated** with overall coffee market. Many roasters offer both ‘**commercial**’ and ‘**specialty**’ qualities
 - Commercial roasters **increasingly interested** in ‘Specialty’ sector
- Already a **reasonable** level of quality in many markets, hence later emergence of separate ‘Specialty’ niche
- New growth being driven largely by **out-of-home** consumption and espresso-based drinks
- Many **new start-ups** (Ireland, Greece, Scandinavia)
- Leading country markets are in **Scandinavia** (Denmark, Norway, Iceland) and Netherlands
- ...but in others the **Specialty Coffee revolution** hasn’t even started...! (UK, Italy, Spain, Portugal, Germany, France)



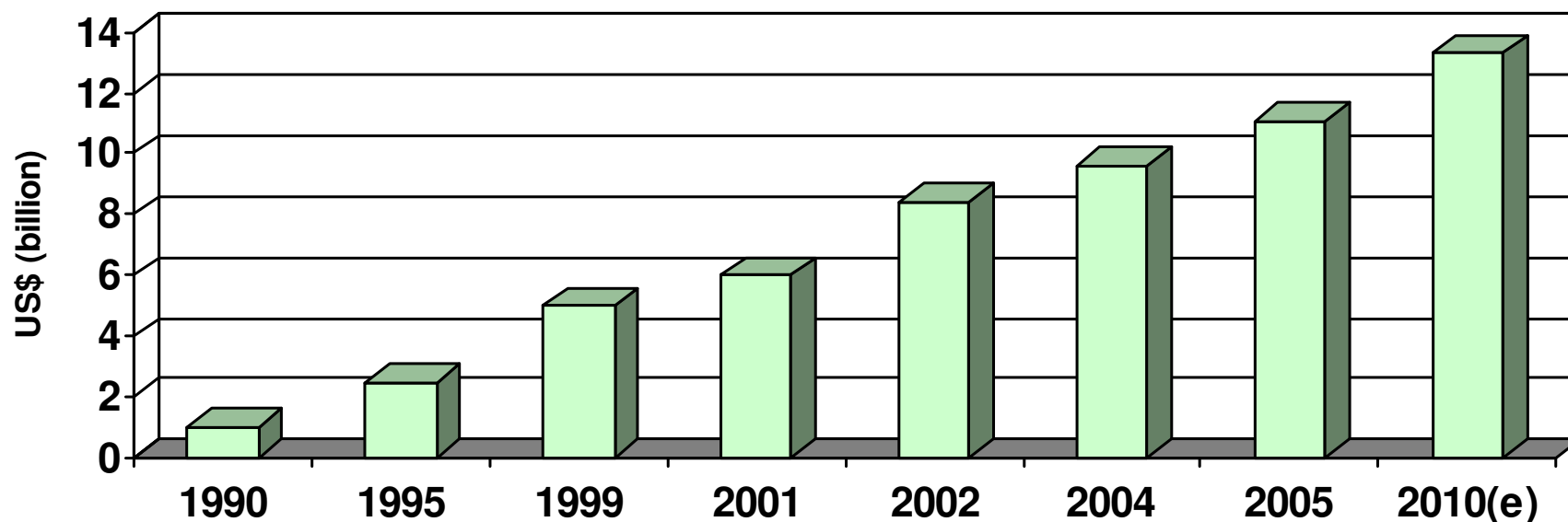
Specialty Coffee market – Japan

- **SCAJ** formed in 2003 (but with potential to evolve very quickly)
- Specialty Coffee in Japan is **distinct** from conventional coffee market (**similar to USA**)
- **Large traditional importers** – no dedicated specialists – specialty roasters not adequately served
- Boom in **coffee bar culture** has helped to increase awareness and quality
- New growth being driven largely by both **out-of-home** consumption and **in-home** – **Cup of Excellence®** well-established and recognised as a brand
- **Highly fragmented** – estimated 1,000-2,000 roasters
- Japanese consumers willing to pay **high prices** for finest coffees / **'name' origins**
- **Highly discerning** consumers



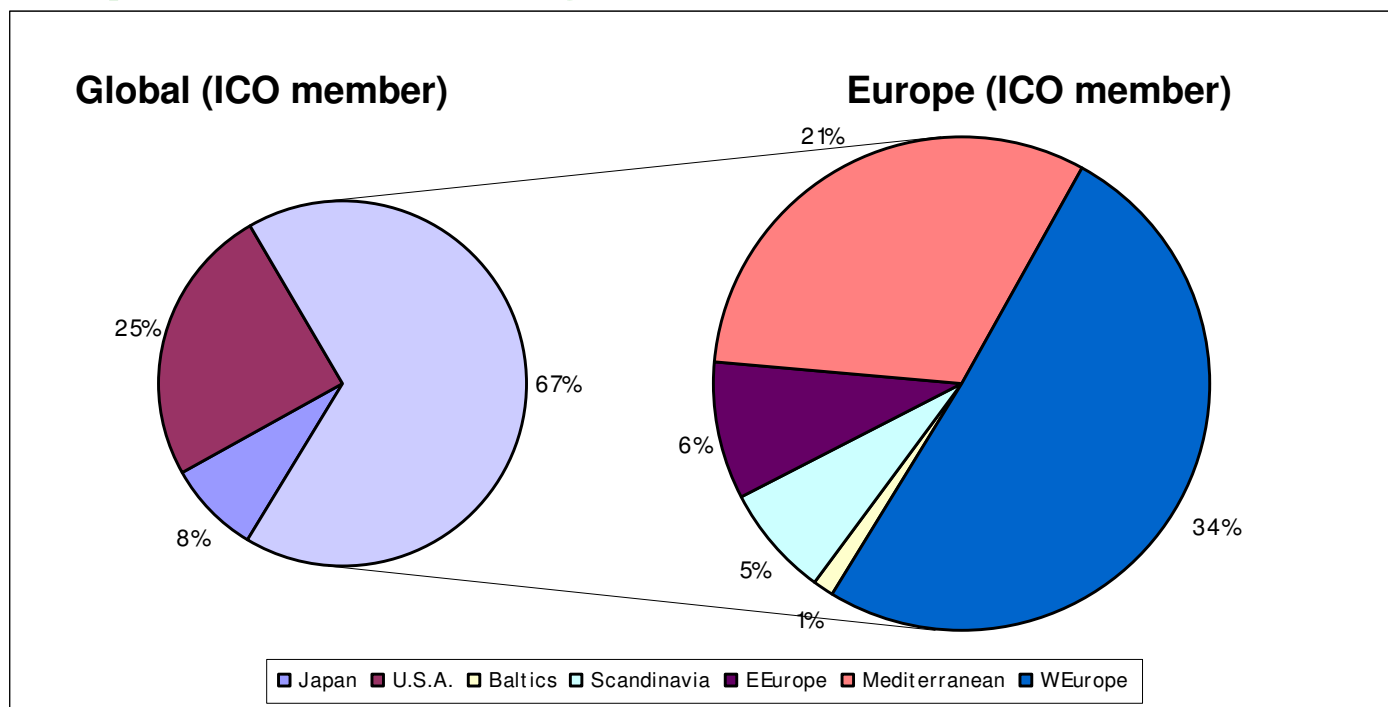
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Specialty Coffee market USA (value)



- Genuine market data for Specialty Coffee market only exist for USA.
- **Estimates** for size of the Specialty Coffee market in Europe and Japan are **around 5%** of total green imports
- Growth being experienced more rapidly in **Specialty Coffee** niche market than in overall coffee market in USA

Europe in the global coffee market



Source: ICO green coffee import statistics for 2005 (ICO member countries – Europe, USA, Japan)

- Europe imported **2x as much** green coffee as Japan and USA combined in 2005
- Specialty consumption driven by **Scandinavian** markets. W Europe and Mediterranean more traditional / commercial quality

The importance of micro-markets...

- **Big fish / small pond!** Impact/influence of a few Specialty Coffee roasters in a small market can cause a dramatic shift in consumption habits nationally (Australia, NZ, Ireland, Iceland, Baltics)
- Change will happen **more quickly** in smaller markets than in larger ones (France, Germany, UK)
- **The poorer the overall quality** in a market, the **easier** it is to establish Specialty Coffee quality (Greece, UK)
- The **reverse** is true in markets where the average quality is **generally good** (Sweden, Finland)



...resurgence of former markets

- **France** – growth will be underpinned by well-established gourmet food culture and traditional role of coffee
- **Germany** – a former great coffee drinking nation, industrialisation of the coffee sector has led to decline in per capita consumption in past 20 years
- **UK** – known as a nation of tea drinkers, increasing interest in fine foods...and Specialty Coffee. Ever closer to US model but hampered by high street real estate prices
- **Italy** – perhaps unique in embracing coffee as a way of life...but little evidence of genuine Specialty Coffee quality
- **Spain** – another nation with deeply entrenched coffee-drinker habits...but generally poor quality 'generic' coffee...and getting worse!



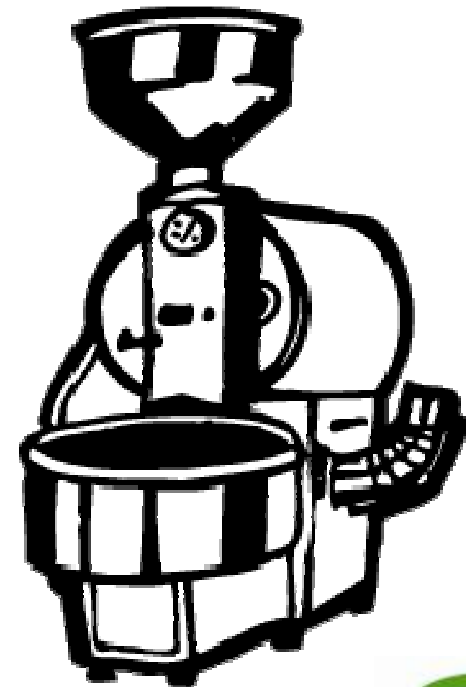
...and the emergence of new markets

- **Baltics** – great example of impact of few pioneers. Strong and highly visible presence at SCAE/WBC
- **E Europe** – coffee culture already in existence and increasingly aspirational
- **Russia** – another aspirational market with many specialty roasters. Buying from COE
- **Korea** – explosion in coffee culture. Recognition of importance of training/education
- **India, China** – also taking a lead from the West and already attracting investment from the large coffee bar chains



Accessing the micro markets

- Question: “I’m starting a Specialty Coffee roaster / retailer...where should I buy my green coffee?!”
 - ❌ my local supplier? Not necessarily the best (Hamburg serves N Europe)
 - ❌ the supplier everyone else uses? (no point of difference - Norway)
 - ✅ the supplier of the finest coffee? Yes!
Delivery w/wide is feasible – Specialty Coffee roasters demand Quality, Expertise, Variety
- Mercanta sells coffee to NZ, SA and Kazakhstan...but not to our local roaster!

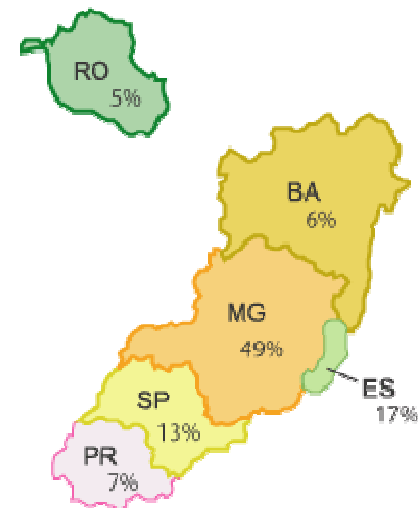


Certification of Specialty Coffee

- Quality certification of Specialty Grade coffee is **ESSENTIAL**
 1. Increasing demand from consuming nations/drinkers
 2. Food safety legislation (Japan)
 3. Provenance is essential in achieving Specialty Coffee credentials
- Certification must apply not only to the **GROWER/FARM** but also to the **COFFEE** itself
 - not all coffee (even from BSCA certified farm) will be Specialty Coffee. So, certification of specific lots / qualities further guarantees quality credentials and traceability.
 - In this regard, the BSCA certification may be unique.



Specialty Coffee and Brazil



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Targeting the Specialty Coffee market

- Lack of a **clear definition** of exactly what is ‘Specialty Coffee’ – confusing for producer and consumer
- **Difficult to target** a market that is poorly defined
- ‘**added value**’ (roasting, packaging, branding, preparation, etc) is mostly carried out in the **importing/consuming** nations – producers have little control over these aspects
- Difficulty in making small lots available to overseas buyers (**market access**) – companies like Mercanta acts as ‘conduit’
- Specialty Coffee now defined more in terms of ‘**quality**’
- **Not all of your coffee** is ‘Specialty Coffee’
- Specialty Coffee **expanding much faster** than conventional coffee market...
- ...do not worry about SC from other countries – your competition is lower grade domestic coffee!



Promotional activity in consuming markets

- Much money invested at origin to develop **quality**. Problem now is not **supply**, but **demand**
- LSC established in 2004 with the specific aim of spreading **knowledge** and **awareness** amongst consumers and the trade
- **GROWERS** need to enter into long-term relationships and to foster strategic global marketing **partnerships** to underpin sales
- **GROWER organisations** must now channel investment into **consumer markets** to stimulate **demand** – resources must be allocated effectively



SWOT analysis

- **Strengths**

- Brazil synonymous with ‘coffee’
- ‘Essential’ is espresso blends
- Economies of scale/production
- Innovation / reaction
- Organisation (BSCA et al)
- Competitively priced
- Fazendas clearly defined/identifiable

- **Opportunities**

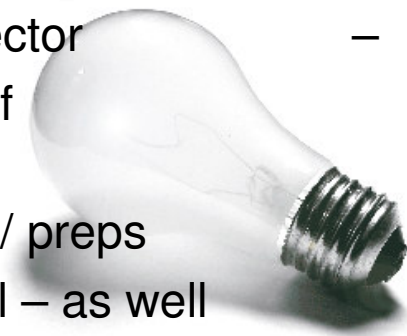
- Growth of coffee bar sector
- Increased awareness of Specialty Coffee
- New varietals / hybrids / preps
- Market access for small – as well as large – farms

- **Weaknesses**

- ...also synonymous ‘Santos’!
- Lingering misconceptions in USA
- Image of large wealthy fazendas
- Little opportunity for ‘added value’ (roasting will remain in consuming countries)

- **Threats**

- Poorly informed consumers and roasters / retailers still buy for wrong reasons (e.g. FT). Must educate consumer to appreciate difference



Recommendations...

- Field trips to connect grower with roaster
- Maintain existing quality and further improve
- Strong 'stories' behind each Fazenda / coffee
- Distribute brochure to show-case best Brazil coffees
- Co-operate – specialty roasters need variety
- Spread your exposure – don't sell all to one buyer / market
- Price your coffee accordingly
- Develop longer-term relationships with buyers
- Partnering with specialty importers
- Participate in competitions such as COE
- Seek to educate/inform the consumer
- Think outside Brazil...and outside coffee (water, wine)
- Know the value of your coffee – not 100% specialty grade
- ...and NEVER sell secondary grades as Specialty Coffee!



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