

# A Business Case to Increase Specialty Coffee Consumption in Producing Countries

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## Summary

Coffee producing countries are impacted negatively by political instability and socio-economic aspects, such as unemployment, economic fluctuations, and violence. Additionally, climate change and its related migration, as well as pests, diseases, soil fertility, and low coffee prices make producing coffee increasingly challenging.

According to Jeffrey Sachs' report *Ensuring Economic Viability and Sustainability of Coffee Production*, the prices in 2018 to mid-2019 were roughly 25% below the long-term equilibrium price between 1960 and 2017 and considered as moderately low.<sup>1</sup> What is clear, looking at supply and demand, is that in the foreseeable future, a significant long-term rise in coffee prices is unlikely, despite temporary surges. Under these circumstances, multiple actions in the coffee sector are needed and domestic consumption of specialty coffee may relieve some of the pressure on coffee producing countries, and particularly on coffee producers.

Around 75% of the total global production of Arabica and Robusta is exported, generating US\$16 billion for producing countries in 2016.<sup>2</sup> Accounting for volatility of annual prices and volumes, the average annual export value is US\$20.2 billion in the period 2010–2015.<sup>3</sup>

This figure includes the income of farmers, exporters, and government agencies involved in growing the beans and exporting them internationally. The total industry was estimated in 2015 at more than US\$200 billion, meaning that only 10% of the aggregate wealth generated by coffee stays in the producing countries.<sup>4</sup>

How can producing countries capture a larger share of the total value?

Considering these trade patterns of volatility and recent low coffee prices with no immediate long-term improvement on the horizon, producing countries must actively respond to mitigate the impact on their populations. The market strategy of most producing countries has solely focused on export because the

majority of the consumption lies in Australia, the European Union (EU), and the United States (US)—and values have been assumed to be highest in these markets. As a result, certain producing countries (e.g., Colombia, Costa Rica, and Guatemala) have strategically invested in positioning their coffee as differentiated by price, quality, and clear propositions of their coffee's unique aspects. The intention behind these strategies has been to position their coffee on the international market, thereby increasing international demand for their coffee.

Specialty coffee<sup>5</sup>, while representing an estimated 50% of the global value of coffee traded, is not the majority of coffee being produced in the world. Estimates are difficult to obtain: In 2004, Luis F. Samper, Daniele Giovannucci, and Luciana Marques Vieira estimated that just 20% of coffee globally traded as specialty.<sup>6</sup> The remaining 80%, commercially traded coffees, provided the volumes required for efficient supply chains. According to a later working paper by the same authors in 2017, increasing demand for high-quality specialty coffee has largely been a positive factor for farmers when sufficient remuneration reaches them.<sup>7</sup> Although there is only marginal consumption of specialty coffee in traditional consuming countries such as those in Europe and the US, the consumption of specialty coffee captures a higher value for producers.

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<sup>1</sup> Columbia Center on Sustainable Investment, *Ensuring Economic Viability and Sustainability of Coffee Production* 2019.

<sup>2</sup> Panhuysen, S. and Pierrot, J.; *Coffee Barometer* 2018.

<sup>3</sup> Panhuysen, S. and Pierrot, J.; *Coffee Barometer* 2018.

<sup>4</sup> Panhuysen, S. and Pierrot, J.; *Coffee Barometer* 2018.

<sup>5</sup> According to the Specialty Coffee Association (SCA), "specialty coffee is referred as a coffee scored over 80 points on a 100-point scale: in its green stage as coffee that is free of primary defects, has no quakers, is properly sized and dried, presents in the cup free of faults and taints, and has distinctive attributes." The same definition is used within this study.

<sup>6</sup> Lewin, Giovannucci, Varangis; "Coffee Markets: New Paradigms in Global Supply and Demand," 2004.

<sup>7</sup> Samper, Giovannucci, Marques Vieira; "The powerful role of intangibles in the coffee value chain," 2017.

While information on coffee trends in consuming countries has long been available, it is rare to find this consumption data for producing countries. The reasons behind this lack of information are unclear, but it could be attributed to assumptions around the size of domestic markets or the quality of coffee consumed. Information remains scarce, but the International Coffee Organization (ICO) offers some general numbers, estimates based on the production and export statistics of the countries. When available, the information is focused on the consuming trends alone; little is known about the impact of domestic consumption on the producer.

For producers to reduce risk, additional opportunities to create and capture more value are key. Therefore, it is vital to commit to strategies that enable producers to create (more) value and allow them to obtain a higher and better share of the consumer price. Cultivating domestic consumption actively should be part of the strategy of a producing country and its market.

Considering the global success of the specialty coffee market—and its benefits to farmers—it's worth finding out if this strategy could work for producing countries. It's also important to understand who might benefit—producers, domestic buyers, and beyond.

## Methodology and Rationale

This study had two main objectives. First, to reveal the potential impact of domestic specialty coffee consumption on producers in selected countries. Second, to discover the growth potential of specialty coffee markets in producing countries. To determine this, a better understanding of specialty coffee consumption trends in each country or region is needed. What is the uptake by the consumer? How does the buyer-producer relationship work in these countries? What is the price paid to producers for specialty coffee?

This empirical study was conducted in Brazil, Colombia, and Mexico; a short insight on Rwanda will also be provided. Why these countries? Brazil has a long history of coffee exports, as well as a trend of recent domestic consumption focused on quality. Colombia has traditionally been more of an export country but has had recent success with a national consumption campaign. Mexico, meanwhile, has a similar number of producers to Colombia, but produces only a third of the volume, and has no national coffee institution. Rwanda, in recent years, has shown an increasing appetite for consuming coffee, despite its historical positioning as a tea-producing and -consuming country. Through their different histories and approaches, these countries offer a general understanding of domestic consumption in coffee producing countries.

Coffee professionals—from producers to roasters and coffee shop owners to researchers—were interviewed between February and August 2019. These individuals either produce or work with specialty coffee. The coffees are evaluated, using SCA cupping forms, by experienced cuppers (in several cases licensed Q Graders<sup>8</sup>). Interviews were also conducted with experts in the subject of value creation and consumption. And, throughout this report, “coffee shops” are defined as a shop focused on serving primarily coffee, some other beverages, and snacks.

This study begins with a review of value creation and value chains to provide further insight into the proposed recommendations specific to the local conditions of producing countries, followed by case study outlines of the chosen countries (Brazil, Mexico, Colombia, and Rwanda). It concludes with findings and recommendations for investment in financial structures, consumption campaigns, and knowledge development.

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<sup>8</sup> A Q Grader is, according to the Coffee Quality Institute (CQI), “an individual who is credentialed by the CQI to grade and score coffees utilizing standards developed by the Specialty Coffee Association (SCA).”

## The Creation of Value

"Most of the people in the world are poor, so if we knew the economics of being poor, we would know much of the economics that really matters. Most of the world's poor people earn their living from agriculture, so if we knew the economics of agriculture, we would know much of the economics of being poor."

Theodore Shultz, acceptance speech  
Nobel Prize in Economics, 1979

Agriculture is critical for employment creation and poverty reduction.<sup>9</sup> As an agricultural product, coffee and its growth are therefore central to the reduction of poverty in rural areas of coffee producing countries. As the export market for coffee is very sensitive to price volatility, the local market is an opportunity for growth. Throughout history, the trends of consumption and the value of coffee have been defined outside the formal borders of producing countries. The spread of coffee production was driven initially by consuming (colonial) countries planting for export to their home markets. This history reflects the continued primary consuming populations of "traditional consuming countries" such as those in Europe, Australia, and the US, where a higher per capita income influenced and drove consumption patterns, defining its value. Today, although roughly 74% of the world's coffee production is consumed by importing countries, their share of the total industry revenues is considerably smaller.<sup>10</sup>

Of the total US\$200 billion generated by the global coffee industry in 2015, exporting countries only retained \$US19.2 billion—less than 10% of the value they generated by growing coffee.<sup>11</sup> Coffee is a global commodity with an unequal value distribution: examining the global coffee value chain is therefore crucial to identifying which interventions and strategies can be adapted to ensure producing countries and producers obtain a higher-value share for their product, improving local economic development.<sup>12</sup>

Coffee's value is linked to the cup quality of the product itself, defined by industry standards through green coffee evaluation and grade determination. But other factors, beyond cup quality, also determine coffee's value. As outlined by Spencer Turer, a specialty coffee professional, the understanding of

quality over the past 20 years has expanded to include both quantitative and qualitative aspects.<sup>13</sup> These additional variables are impacted from production to preparation, with intrinsic, produced, manufactured, prepared, emotional, and perspective qualities adding new dimensions to the conversation around how "quality" is determined.<sup>14</sup>

Outside of increasing cup quality, strategies for adding value within global value chains have involved certification, vertical integration, or closer links with buyers as well as product differentiation. The initial identity and distinctiveness of the product, its "raw" value, is established at origin through variety, terroir, processing, and milling; this value is maintained as it moves along the chain. However, more emphasis has recently been given to the activities that create value from import to the point of sale, which has led to a higher-value appropriation by the actors in importing countries. With this, the initial value creation at origin by producers often dissolves. In addition, particularly within the coffee value chain, the creation of value has primarily been focused on organizing the value chain to meet the requirements of global buyers, including food safety standards (e.g., ISO and GLOBALG.A.P.) and sustainability regimes (e.g., Fairtrade and Rainforest Alliance) initially set by importing countries.<sup>15</sup>

Today, the consumer perspective also impacts the creation of value; this was historically limited to "the overall consumer's assessment of the utility of a product based on perceptions of the consumer on what is received and what is given, and on its own experiences and context," defined at the point of exchange.<sup>16</sup>

<sup>9</sup> Christiaensen, Martin; "Agriculture, structural transformation and poverty reduction: Eight new insights," 2018.

<sup>10</sup> Samper, Giovannucci, Marques Vieira; "The powerful role of intangibles in the coffee value chain," 2017.

<sup>11</sup> Samper, Giovannucci, Marques Vieira; "The powerful role of intangibles in the coffee value chain," 2017.

<sup>12</sup> Samper, Giovannucci, Marques Vieira; "The powerful role of intangibles in the coffee value chain," 2017.

<sup>13</sup> Turer, S.; Roast Magazine, "Quality Variations—Defining and Measuring Quality in Coffee From Production to Preparation," 2020.

<sup>14</sup> Turer, S.; Roast Magazine, "Quality Variations—Defining and Measuring Quality in Coffee From Production to Preparation," 2020.

<sup>15</sup> Humphrey, J.; "Global Value Chains in the Agri-food Sector," 2006.

<sup>16</sup> Woodruff, R.; "Customer value, the next source for competitive advantage," 1997.

Later, the concept of "value-in-use" was added. This considers the user experience, which can be different for each customer and is especially true for a product like coffee, which is frequently consumed in out-of-home environments like restaurants and coffee shops. The entire experience of drinking coffee is more valued than merely buying, "owning," and consuming it. Furthermore, the value experience of coffee depends on the different needs of different consumption occasions.

These needs and the price point consumers are willing to pay are tied in specific segments where consumption takes place, be it "out of home" or "at home."<sup>17</sup> What can also be observed in the global coffee value chain is that buyers and suppliers capture value from each other's relationships. This relational value considers trust and cooperation among buyers, suppliers, and end-consumers, which can then contribute to an increase in customers' willingness to pay.<sup>18</sup> This is particularly evident in direct models and is linked partly to the "third wave" movement in coffee.<sup>19</sup> However, in consuming markets like the US, this movement has created a potential oversaturation of specialty coffee roasters and a search for differentiation outside quality, focused on doing business differently and on service.<sup>20</sup>

In summary, the process of value creation along the supply chain defines the value proposition to end-consumers and consequently value appropriation for all value chain actors. When producers understand the value proposition of their coffee within value chains, they can focus on contributing to that proposition, leading to a potential increase both to the end-customers' willingness to pay and improve their retention of coffee's economic value.<sup>21</sup> One of the reasons for this study is to explore the assumption that this impact is easier to achieve in domestic value chains when common factors between producers, buyers, and consumers are similar: cultural preferences, ethics and values, language, and social organization.

This paper will highlight existing practices that generate value creation and appropriation in coffee producing countries, with a focus on specialty coffee, where it is observed that producers have been able to capture significant value.

## Brazil: How it Became the Producing Country with the Biggest Domestic Consumption

When it comes to consumption, Brazil is a mature market. By 1720, the first seeds and seedlings arrived in Pará, Brazil. The habit of drinking coffee reached the northern area of Brazil, and coffee started to be produced in the Amazon (north) for local consumption. By 1770, coffee was produced around the city of Rio de Janeiro, which supplied the domestic consumer market. The southeast region was soon recognized as having appropriate conditions for efficient coffee production.<sup>22</sup> Coffee has now been a popular drink for hundreds of years, promoted by Brazilian coffee institutions in recent decades.<sup>23</sup> (See *Café na Merenda, Saúde na Escola* for an example.)

Brazilian coffee consumption experienced one of its largest growth spurts between 2003 and 2009. During this period, the Association of the Brazilian Coffee Industry (ABIC) launched a promotion program focused on quality, education, and consumption. In its first 15 years, ABIC's campaign drove the eradication of impurities in the prime material (coffee cherry), and then later it focused on segmentation and differentiation to raise the perceived value of specialty coffees.

Another essential factor driving this growth was a period of economic stability and higher wages in Brazil. During this time, some 20 million people moved from lower social classes into the middle class.<sup>24</sup> This new middle class accounted for around 95 million

<sup>17</sup> Samper, Giovannucci, Marques Vieira; "The powerful role of intangibles in the coffee value chain," 2017.

<sup>18</sup> Silva, Abdalla, Araujo; "Value Co-creation in the specialty coffee value chain: the third-wave coffee movement," 2017.

<sup>19</sup> "Third wave" is a label for the products of a coffee industry made up of coffee shops and other coffee businesses opened between about 2000 and today that share a linked, if not identical, mission statement: to deliver high-quality cups of coffee to customers. This was first defined by Trish Rothgeb, a specialty coffee professional.

<sup>20</sup> Tracy Ging, Re:co Symposium 2018, "The State and Future of the Business of Coffee," moderated by Nick Cho.

<sup>21</sup> Silva, Abdalla, Araujo; "Value co-creation in the specialty coffee value chain: the third-wave coffee movement," 2017

<sup>22</sup> Silva, Abdalla, Araujo; "Value co-creation in the specialty coffee value chain: the third-wave coffee movement," 2017.

<sup>23</sup> Consorcio Pesquisa Café; "Café na Merenda, Saúde na Escola," 2016.



### Café na Merenda, Saúde na Escola

The Coffee at Lunch, Health at School Program created by ABIC in 2006 aimed to: develop healthy eating habits; disseminate the benefits to intellectual activity, school learning and disease prevention; develop scientific research correlating the consumption of coffee with milk and the improvement of school learning; and stimulate the daily habit of consuming coffee with milk among students between 6 and 18 years old and contribute to the formation of future consumers.

In 2009, an evaluation survey was conducted among the school children:

- 86% felt good after drinking coffee
- 67% had improved attention
- 63% got better grades

Brazilians. The middle-class share in consumption subsequently rose from 37% in 2003 to 42% in 2009.<sup>25</sup> Out-of-home consumption grew at an incredibly fast pace with a 170% increase over the same period, largely driven by this new middle class.<sup>26</sup>

Today, coffee has a 98% penetration in Brazilian households. Sustained growth since 2008—despite several economic crises—reflects not only the cultural importance of coffee in the country, but also how much the industry succeeded in responding to new consumption behaviors.<sup>27</sup> Migration to cheaper brands has not had much impact and consumers continue with the same buying behaviors: valuing quality, brand, and price.

Despite the fact that 2019's production (49.3 million bags, an "off year") was significantly less than the year before (61.6 million bags), both export and domestic consumption increased significantly between 2018 and 2019. Brazil's 2020 production is currently estimated at 59.58 million bags—if export grows at a similar rate, there will be more room for domestic consumption growth in 2020.<sup>28</sup>



Coffee Lab, coffee lab and roastery, in São Paulo, Brazil. Founded in 2009.

This increase in consumption between 2018 and 2019 is largely attributed to:<sup>29</sup>

- increasing demand from young consumers
- changing habits in how frequently people drink coffee during the day, especially among people between 16 and 20 years old
- increasing popularity of coffee pods, especially at home.

Consumption remains concentrated in households, representing 64% of the total, while consumption in the "away from home" category reached 34%.<sup>30</sup> Consumers that are away from home are looking for higher quality coffees. The ABIC indicates that this is the result of their greater knowledge about coffees, including: their characteristics, differences in preparation, different terroirs, diverse producing regions, and more knowledge on the health benefits of coffee.

According to Euromonitor, coffee consumption is expected continue to expand with a continuous

<sup>24</sup> Bloomberg; "In Brazil, Growing Middle Class Boosts Internal Coffee Consumption," 2010.

<sup>25</sup> Bloomberg; "In Brazil, Growing Middle Class Boosts Internal Coffee Consumption," 2010.

<sup>26</sup> ABIC Consumption Trends survey, 2010.

<sup>27</sup> Euromonitor blog, 2018.

<sup>28</sup> CONAB, "Acompanhamento da Safra Brasileira Café," 2020.

<sup>29</sup> 2018 ABIC Research area—Production and Consumption Performance, 2018.

<sup>30</sup> 2018 ABIC Research area—Production and Consumption Performance, 2018.

growth trend through 2021: an estimated 3.5% increase per year to 1.2 million tons by 2021 (25 million 48 kg bags). High-quality coffee is expected to continue to gain market share. Higher prices to consumers do not appear to affect this growth, considering that prices rose from 9% in 2016 to 18% in 2018.<sup>31</sup>

Additionally, the habit of drinking coffee in coffee shops is expected to continue to grow. According to Euromonitor, coffee shops attract clients in with comfortable environments and create opportunities for people to gather and learn about the latest trends in coffee.

## Colombia: The Tomar Café Program<sup>32</sup>

Jesuit priests are credited with having first introduced coffee to Colombia around 1723, but it was not until 1870 that Colombia became known as one of the most important coffee producing countries and exporters.<sup>33</sup> The following summary is focused on the last 20 years, centered on changing consumption habits in Colombia. In 2009, Colombia started its coffee promotion program. This decision was driven by several factors: After a period of relatively high consumption in 1986 and 1987, when Colombia consumed 1.9 million bags (3.9 kg/capita), internal consumption dropped significantly to 1.2 million bags in 2009.<sup>34</sup> This corresponds to the dismantling of the consumer subsidy, a product of the International Coffee Agreement (ICA) that enabled local roasters to procure green coffee at below-market prices. When the ICA collapsed in 1989, the subsidy was eliminated, local prices increased, and local consumption was negatively affected.

This decline in consumption was motivation to react and, in 2009, the National Federation of Coffee Growers (FNC) and the private industry united forces and formed the Programa Promoción de Consumo de Café de Colombia—Tomar Café. This program had a long-term vision of stimulating demand and strengthening supply, innovation, and education in the distribution channels to add value based on consumer preferences.

The Tomar Café program implemented its strategy with a focus on busting myths and preconceptions about coffee, as well as sharing the benefits of coffee with media and health professionals based on the latest research. Tomar Café distributed its messages through a then-active website, [cafeyciencia.org](http://cafeyciencia.org). The campaign also positioned coffee as a vital drink through advertising strategies and social networks.<sup>35</sup>

Another activity of the program was to update the members of the coffee sector on the latest trends and opportunities to elevate domestic consumption, including collaborations with other institutions to stimulate information sharing.



Varietale, café and roastery in Bogotá, Colombia. Founded in 2012.

By the end of the program in 2013, 1.5 million bags were consumed in Colombia. The program managed to train more than 15,000 workers from hotels, restaurants, and specialty cafés across 16 cities in barista skills, as well as 3,000 small business owners from shops, bakeries, and coffee shops in six other cities. One of the reasons for the program's success, according to the FNC, was the shared vision and long-term objectives between the FNC and private industry.<sup>36</sup>

The "100% Colombia" brand and Juan Valdez have also been key to the country's strategy, positioning Colombia in the international market to maximize demand and to obtain higher premiums. Not only

<sup>31</sup> Euromonitor Brazil Market Trends 2017.

<sup>32</sup> Spanish translation of "to drink coffee."

<sup>33</sup> Giovannucci, D.; Colombia Coffee Sector Study 2002.

<sup>34</sup> 60 kg bags of green coffee.

<sup>35</sup> Samper, L.; "Un trabajo bien hecho," 2016.



focused on export, the campaign kicked off in 2002 by opening a Juan Valdez café inside Bogotá's international airport. Today, you can find over 400 Juan Valdez coffee shops in Colombia.

According to the latest figures published in December 2019, Colombia produced 13.9 million bags and exported 13.5 million bags in 2018/2019. In the last few years, consumption has remained strong. In 2018, consumption was estimated at 1.79 million bags, which results in 2.2 kg/capita for 49 million people. In 2019 it remained at 1.8 million bags. To keep up with that consumption, Colombia increased imports by 122% in 2019, which was largely used to support national consumption and the production of soluble coffee, which came mainly from Peru and followed by Honduras.

## Mexico: A Significant Growth Potential

Coffee plants were introduced to the Mexican state of Veracruz from Cuba in 1790. By 1846, coffee production was up and running in the states of Veracruz, Chiapas, Tabasco, and Michoacán. Currently, coffee is produced in 15 Mexican states; Chiapas leads with 40% of national production, followed by Veracruz at 25% and Puebla with 16%.<sup>37</sup>

In 1958, the Mexican Coffee Institute, or Instituto Mexicano del Café (INMECAFE), was formed, with the objective to promote and disseminate the most convenient systems of production, processing, and marketing.<sup>38</sup> By 1970, INMECAFE managed most of the commercialization of coffee, from buying directly from producers to processing and exporting parchment, directly linking it with credit policies.<sup>39</sup> With the collapse of the ICA and the beginning of a new production strategy, a neoliberal period started and INMECAFE dissolved. Producers were disorganized and left in an unprotective international commercial setting where prices dropped, and producers were faced with an unsustainable business. For the years to come, the coffee sector was left without an institution. Coffee rust disease, combined with numerous problematic factors (including older and low-yielding plants), and lack of funds to invest all hit

Mexico hard. Production plunged from 3.6 million bags in 2012 to just under 3 million bags in the 2014/2015 harvest season.<sup>40</sup> Both the federal government of Mexico and its coffee-producing states began implementing public and private programs in 2016 to increase productivity and recuperate planted, and by the 2018/2019 harvest, production had risen to 3.8 million bags. The 2019/2020 harvest is projected at 4.2 million bags.<sup>41</sup>

With no specific program or campaign focused on promoting the consumption of coffee or any other institutional support, it has been surprising to see consumption increase steadily. In 2015, Mexican domestic coffee consumption surpassed national production for the first time. This was in part due to a drop in production after coffee rust disease hit in 2015, as well as the cumulative increase in coffee consumption across the previous years. In 2016 Mexico was consuming 2.8 million bags—1.4 kg coffee/capita.<sup>42</sup> Consumption in 2019 was estimated at 3.2 million bags.<sup>43</sup>



Memorias de un Barista, coffee shop and roastery in Mexico City, Mexico. Founded in 2013.

<sup>36</sup>FNC, Dinámica del consumo interno de café en Colombia, 2013.

<sup>37</sup> Secretaría de Agricultura y Desarrollo Rural de México (SADER)/Ministry of Agriculture and Rural Development.

<sup>38</sup> Secretaría de Economía de México (SE)/Ministry of Economy.

<sup>39</sup> Hernández-Martínez and Córdova Santamaría; Mexico, coffee and producers, 2011.

<sup>40</sup> Asociación Nacional de la Industria de Café/National Association of the Coffee Industry (ANICAFE) and SADER 2019.

<sup>41</sup> USDA Coffee Annual Report 2019 and SADER.

<sup>42</sup> Euromonitor Análisis de Consumo México, 2017.

<sup>43</sup> ANICAFE and SADER 2019.

According to a consumption study by Euromonitor in 2017, instant coffee still leads in volume in the Mexican retail sector due to the tradition of consumption, ease of preparation, and its lower price. Yet, ground coffee is growing faster than soluble for home consumption, driven by consumers who increasingly appreciate the quality of beverages made with roasted coffee instead of soluble. This customer appreciation and education is in part due to (chain) cafés that have expanded rapidly in the country, introducing higher quality coffee to consumers.

At the total market level, ground coffee is capturing market share because consumption in foodservice (where ground coffee dominates) is growing more than consumption at home. This general trend towards more sophisticated coffee consumption has been very visible, although it also has been slowed by a weak economy leading low and middle-low income consumers to retreat from higher prices. As the economy recovers in the coming years, ground coffee is expected to have the highest growth of the three categories of coffee (soluble, ground coffee, and roasted).<sup>44</sup>

Combined with the growth of the population and a potential recovered economy, Mexico can be the next giant in the international coffee room.

## Rwanda: From Tea to Coffee

A landlocked country in Central East Africa with numerous lakes, Rwanda enjoys mountainous terrain elevation ranges from 800 to 4,500 m above sea level. The country is also known as a "country with a thousand hills," due to its dramatic landscape.<sup>45</sup>

During the last five years, Rwanda's total gross exports have increased at an annualized rate of 9.7% from US\$554 million in 2011 to US\$869 million in 2016. Its most important exports are gold, which represents 20.5% of total Rwandan exports, and tea, which accounts for 13.3%. Coffee represents only about 7% of total export value and 20% of the total agricultural export value from Rwanda.<sup>46</sup>

Coffee is produced by around 400,000 smallholder

families on around 35,000 hectares according to Rwanda's National Agricultural Export Board (NAEB), with the country's total coffee production ranging between 15,000 and 22,000 metric tons (this rate has been relatively stable). In the late 1990s, Rwanda's government closely controlled the coffee sector, dictating a single coffee price for the entire season and providing no incentive for farmers to upgrade to higher-value coffee processing. With little investment, the existing stock of coffee trees aged, soil fertility declined, and crops were weakened by insects and fungal diseases. By 2000, as much as 90% of Rwanda's crop was classified as low-quality, commodity-grade coffee. To break out of this "low-quantity, low-quality" trap, the National Coffee Strategy was adopted in 2002. The strategy fundamentally restructured the coffee sector by drastically increasing the share of high-quality ("fully washed") coffee from 1% in 2002 to 60% in 2006. Shifting the pricing of beans from volume to quality incentivized farmers to raise the value of their coffee (processing it in a washing station). The sector was



Neo, café and roastery in Kigali, Rwanda.  
Founded in 2014.

also liberalized to attract new washing stations and farmer associations. The effect of these policies was dramatic. The number increased from 2 in 2002 to 245 in 2015. On average, farmers receive 69% of the Free on Board (FOB) value.<sup>47</sup> This focus on value addition was the main reason coffee exports rose from US\$14.6 million in 2002 to more than US\$62 million in 2015.<sup>48</sup>

<sup>44</sup> Euromonitor Análisis de Consumo México, 2017.

<sup>45</sup> Hakorimana, Akcaoz; "The Climate Change and Rwandan Coffee Sector," 2017.

<sup>46</sup> CBI Value Chain Analysis for the Coffee Sector in Rwanda, 2018.

<sup>47</sup> CBI Value Chain Analysis for the Coffee Sector in Rwanda, 2018.

<sup>48</sup> Rwanda National Agricultural Export Development Board (NAEB), 2019.

In the last few years, more coffee shops have opened in Rwanda; according to the NAEB, around 30 cafés have been established along with 40 roasteries. Roasters indicated that hotels and supermarkets have been slowly demanding more coffee. An example of this kind of emerging demand is the partnership between Sustainable Harvest and Hotel Serena in Kigali, who are now offering Question Coffee, a 100% Rwandan-sourced coffee business, to their customers.<sup>49</sup>

## Findings

Diving into the case study countries revealed inspiring stories that shared common threads across all the studied countries but with one specific commonality, namely that consuming coffee has become an everyday activity resulting in an increasing demand for this drink.

To have a better understanding of the consumption of coffee in these countries, different sources in each country were consulted as mentioned below. All numbers mentioned here refer to kilos of green coffee per capita unless indicated otherwise (Fig. 1).

Brazil has achieved an impressive growth of domestic coffee consumption, increasing 2–4% per year in the last few years. In 2019, 23.53 million bags were reported as consumed in Brazil, an estimated 6.7 kg/capita, placing it again as the top producing country that drinks coffee. Similar growth numbers are seen for Colombia, at 1.5–3% per year; in 2016, its population consumed 1.72 kg/capita, and, two years later, in 2019, Colombians consume 1.80 kg/capita. Mexico shows an upward tendency not seen before, consuming an estimated 1.52 kg/capita in 2019 compared to 1.4 kg/capita in 2016.<sup>50</sup>

Rwanda has only just started to gather information, but the sector does perceive the trend of increased coffee consumption. An ICO report indicated a consumption of 60,000 kg of green coffee in Rwanda in 2018, with an estimated population of 1.2 million people, or 50 g/capita.<sup>51</sup>

In all cases, the overall coffee consumption still largely occurs at home (70–80%)<sup>52</sup>; these consumers

buy their coffee at a supermarket. This means that the consumption of specialty coffee occurs primarily out of home. According to Eliana Relvas, a coffee consultant for the supermarket chain Multivarejo in Brazil, it is very challenging to reach supermarket customers with specialty coffee in the Brazilian context.<sup>53</sup> Within a supermarket, she says, coffee competes with everyday products that are often on promotion to customers, resulting in different perception of value. Producers also need to have a logistics system in place to supply to supermarkets, which many don't have. Nonetheless, when it comes to coffee in supermarkets, particularly in Brazil, there has been an upgrade in mainstream quality as well as the type of packages offered; for example, the quality of soluble coffee has improved and now even specialty soluble coffee can be found on the shelves. In addition, supermarkets have differentiated themselves, from low budget to high exclusive supermarkets, which may have also favored a specialty coffee uptake.

The general rise in coffee consumption within these countries is mostly driven by soluble and capsules/pods, although roasted and ground coffee has risen as well. Generally, coffee has gone from a beverage consumed mainly in the morning to a drink enjoyed throughout the day (even at night). The growth of drinking specialty coffee creates new ways for people to socialize, whether it is ultimately in a coffee shop or bought at a convenience store.

Consumption of Green Coffee (per capita, 2019)	
Brazil	6.73kg
Colombia	1.80kg
Mexico	1.52kg

Sources: Brazil - ABIC; Colombia - FNCC; Mexico: ANCAFE and SADER

Figure 1: Consumption of green coffee (per capita, 2019)

<sup>49</sup> Sustainable Growers is a sister company of Sustainable Harvest, a specialty coffee importer based in Portland, OR, United States.

<sup>50</sup> Numbers were provided respectively by ABIC, FNC and SADER/ANCAFE.

<sup>51</sup> ICO report on domestic consumption by all exporting countries, 2019.

<sup>52</sup> Based on the studies and sources mentioned in this study.

<sup>53</sup> Interview with Eliana Rivas, coffee professional in Brazil, July 2019.

# The Rise of Specialty Coffee and Consumer Uptake

While the extent of their total impact is unclear, the arrival of international coffee chains to each country also influenced and likely helped to grow the trend of out-of-home consumption. The now world-famous coffee company Starbucks introduced the coffeehouse concept in 1984. By 2002, it had 5,886 coffee shops primarily located in the US, and, in the same year, it opened the first Starbucks coffee shop in Mexico.<sup>54</sup> Starbucks introduced to many a new way of drinking coffee. As people traveled more and became familiar with its concept, its arrival as a coffee shop and brand also influenced the way coffee was consumed. Starbucks introduced a coffee shop in Brazil in 2006, although by then Brazil was already drinking coffee heavily (5.3 kg/capita).<sup>55</sup>

In Colombia, the FNC developed the Juan Valdez brand in 1959, which contributed to the boost in coffee consumption, and in 2002 the first Juan Valdez coffee shop opened in Bogota. By 2014 there were 300 Juan Valdez coffee shops globally, which was the same year Starbucks introduced its store in Colombia. The appearance of Starbucks in Colombia was controversial at first, as coffee is a matter of national identity for Colombians, and there was uncertainty around how Colombians would respond to the foreign brand. Starbucks has been able to grow in Colombia and, in 2018, counted 26 stores throughout the country, serving 100% Colombian coffee.

Overall, Brazil, Colombia, and Mexico have also seen a rise in local coffee shop chains, like Casa Pilão in Brazil; Tostao in Colombia; and Cielito Lindo and Punta del Cielo in Mexico. All these domestic chains have a model of serving coffee fast versus slow without losing quality. In some cases, "fast" is equated to the speed of service, but in other cases, it is presented as a grab and go concept (no seating area). "Slow" refers to the intention to give the customer a full experience of drinking coffee and "keeping" the customer in the establishment.

Today, an increasing number of independent coffee shops can also be found in these countries, not only in large urban areas but also in smaller ones throughout the country.<sup>56</sup> Rwanda's coffee shops can

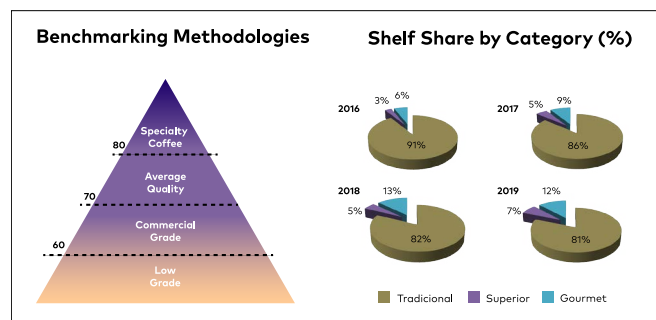


Figure 2: Coffee shelf share by category in Brazil Source: ABIC (Association of the Brazilian Coffee Industry)

be mostly found in Kigali, the capital city. Aside from Brazil, however, it is difficult to find specific numbers regarding the share of specialty coffee consumption.

In Brazil, the ABIC's<sup>57</sup> quality coffee certification program has allowed for a better understanding of the share of specialty coffee. The shelf share for gourmet (specialty) coffee has grown from 2016 from 6% to 12% in 2018 (Fig. 2). The specialty coffee sector started to develop in 2010, with the emergence of the first coffee shops in São Paulo.

For Colombia and Mexico, less is known about the percentage of specialty coffee consumption, although it is estimated at 3–5% of the total national coffee consumption.<sup>58</sup>

The majority of the roasters and specialty coffee shops started in trendy neighborhoods, offering a wide range of different businesses and entertainment, from culture to gastronomy. Although these additional attractions positively benefit these coffee shops, it doesn't appear to be a necessary prerequisite for success.<sup>59</sup> Some owners prefer to change the status quo and open shops in neighborhoods that are less familiar with the concept to attract a new type of customer.

The type of consumers that visit depends partly on the neighborhood and varies from young consumers

<sup>54</sup> [www.starbucks.com](http://www.starbucks.com)

<sup>55</sup> Kilograms of green coffee per capita, according to ABIC.

<sup>56</sup> Although some of the interviewed entrepreneurs have plans to open up a coffee shop outside of Kigali.

<sup>57</sup> Association of the Brazilian Coffee Industry.

<sup>58</sup> FNC Dinámica del consumo interno de café 2013 and SADER, respectively.

<sup>59</sup> In the capital cities of Brazil, Colombia, and Mexico one can find between four and ten specialty coffee roasters according to the interviewees.



to families. In general, the most popular drinks at the inception of these new coffee shops were mostly milk-based beverages. However, in all three countries, more consumers are demanding quality coffee, especially with the rise of manually brewed coffees. Next to the growth of drinking black coffee in these establishments, these coffee shops noted an increase in the sale of bags of roasted coffee, a similar trend seen in the US.<sup>60</sup>



Casa Cafeología, San Cristobal de las Casas, Chiapas, Mexico.

These customers receive quality service and information about coffee from baristas. Where first the region, name of the farm(er), and roast level were an essential piece of differentiation, now also the variety, process, and flavor profile are added; in some cases, a full profile of the coffee terroir is given. More consumers are interested in learning about coffee and have become more knowledgeable, appreciating the flavor notes. Compared to 10 years ago, a wider range of coffees are available to customers, who are now more likely to understand and appreciate a differentiated offering.

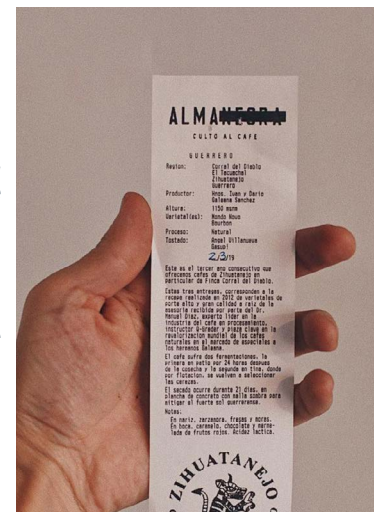
**“Looking at Mexico, its biodiversity and varieties leads to endless combinations of flavor”**

- Jesús Salazar, owner specialty coffee shop and roastery Casa Cafeología in San Cristobal de las Casas, Chiapas

It's important to note that the coffee served at these shops is almost all sourced from local coffee producers. Brazil prohibits green coffee imports, making it challenging to offer coffee from other countries. Although Colombia and Mexico don't have these prohibitions, the majority of specialty coffee offered in each country originates from the country itself. Thus, when mentioning the availability of different coffees, “differentiation” means serving from lesser-known regions, varieties, or processes, and introducing new producers. For example, coffees from Guerrero, Mexico are rarely exported, but are often served in Mexican specialty coffee shops.

**“We need the right words, right environment to guide consumers in drinking better quality coffee.”**

- Isabela Raposeiras, owner of specialty coffee shop and roastery Coffee Lab in São Paulo, Brazil



Almanegra Coffee shop in Mexico City provides detailed information with every cup and bag of coffee.

This demand for high-quality coffee has also led coffee shop owners to train their baristas to serve to the customers' needs and educate their staff on specialty coffee. Several of the roasters and coffee shops interviewed during this project have set up cupping labs to train their staff or other professionals. These labs offer self-developed education modules, (partially) based on institutionally developed content from the SCA, CQI, and Alliance for Coffee Excellence (ACE). Additionally, these spaces host cupping events, organized to educate their customers on the diversity of the coffees that exist in their countries.

<sup>60</sup> Euromonitor Passport Portal—United States.

## Doing Business in a Domestic Value Chain

This study examined the value chain between a producer, roaster, and coffee shop in more depth, as specialty coffee is consumed mainly out of home, in coffee shops. In this relationship model, the profile of the producer and buyer were similar across countries and are summarized in Fig. 3.



Figure 3: Summarized producer and buyer profiles.

Sadly, many producers are often unaware of the quality of their coffee or its potential. The majority of the negotiations around price often dismiss defects without explaining “why” or “how” the defects influence the quality and, subsequently, the agreed price. Producers focused on quality have done so out of interest or were told at either an auction, competition, or an event that they have excellent coffee.

When producers sell their coffee as specialty, they sell it either through an intermediary or directly to the end-buyer. These intermediaries are often buyers who search for specialty coffee and can provide services to the producers in terms of technical assistance and informing them of the quality of their coffee. They supply the coffee to their network of local roasters and coffee shops, either green or roasted.

When a producer sells coffee directly to the end-buyer, the relationship follows similarities as the business model above; however, as the chain is short, buyers communicate directly with producers. This results in producers becoming more aware of the quality requirements and needs of the end-buyer and their customers. Buyers report that they often visit the producers they work with, once or twice a year, to strengthen their relationship and align expectations for quality and volume; in some cases, technical assistance was provided. The majority of these buyers, roasters, and coffee shops work with several producers, ranging from two to sixty during the year, depending on the volume they require. The majority do so to offer different coffees to their customers, and a few do so to be less dependent on particular relationships. All buyers interviewed are in long-term relationships with producers, from two to even five years on average. It is often in these cases that producers are invited to visit the roasteries or coffee shops to see how their product is served.

## The Relationships

The majority of buyers interviewed as a part of this study said that their relationships began when they visited the producers themselves. This first interaction occurred through an introduction or, in some cases, producers reached out to these SMEs when they heard they were looking for specialty coffee.

**“We want to provide full traceability of Mexican coffee and serve the best coffee to our customers in our country.”**

- Fabrizio Senci3n and Jorge Sotomayor, owners of specialty coffee shop and roastery Pal Real, in Guadalajara, Mexico



In this value chain, where the sale is made directly, coffee is ordered and delivered throughout the year, depending on the needs of the buyer. The frequency of the orders can vary, from being once per year to three to four times a year. For example, in Mexico, the harvest season runs from November to May. Producers arrange for the coffee to be milled (depending on their end-product) and transported to the end-buyer; the additional costs of milling and transport are passed on to the buyer. Coffee is paid upon arrival within two to four business days, either in cash or wired to a bank account of the producer's choice (as not all producers have their own). The lack of a bank account complicates transactions and even excludes producers from an array of financial services.

In **Rwanda**, a stable economy has led partly to an increasing uptake of coffee, as Rwandans have been able to travel more and adopt some of the consumption habits found outside their immediate environment. Although Kigali is the main hub for these coffee shop, some of these small and medium enterprises have intentions to expand their business to outside the capital city. Rwanda is historically a tea-consuming country and it has therefore been a challenge to "convert" consumers to coffee, as tea is still cheaper than coffee as a drink. The majority of consumers are medium and upper class—specifically young consumers. Several coffee shop and roastery owners indicated that more promotion is needed to stimulate the sector. Fortunately, NAEB has supported the growing coffee sector in Rwanda and has focused on facilitating several services for small and medium enterprises to lower the barriers of entry.

Relationships with producers in Rwanda largely follow the same dynamic as mentioned before: a direct relationship with primarily producer organizations. In conversations with the buyers, it became evident that the coffee exported was sold for slightly higher prices than when sold locally.

Several cafés offer tours where one can visit coffee farms along with a visit to one of the national parks. This has been received quite positively as more tourists have started to visit Rwanda. Some of these visits are focused on locals.



Question Coffee, specialty coffee shop and roastery in Kigali, Rwanda.

## Price Matters

The internal prices for conventional coffee for Brazil and Colombia are based on reports from Companhia Nacional de Abastecimento (CONAB) and FNC respectively, and reflect a national average. In the case of Mexico, there is no internal market price regulation and, thus, there is no official source. In this case, the number reflected is based on the average of the data provided by producers. The internal prices for specialty coffee all come from the interviews held in each of the countries and do not reflect a national average.<sup>61</sup> Both the data for conventional and specialty coffee corresponds to the period from February to July 2019. The Specialty Coffee Transaction Guide (SCTG) served as a source for the mentioned "Free on Board" (FOB) prices, as it contains a substantial database of these prices for three years.<sup>62</sup>

<sup>61</sup> Multiple transactions of on average 10 producers per country were taken into the average calculation per country. The calculations are based on samples and do not aim to provide statistical significance.

<sup>62</sup> The Specialty Coffee Transaction Guide (SCTG) relies on an expanding group of data donors—roasters, importers, exporters, and others—who provide detailed contract data covering specialty coffee transactions from recent harvests. Researchers at Emory University use this anonymized and appropriately aggregated information to create annual Transaction Guides that report on the distributions of recent FOB prices for green specialty coffees. Free on Board (FOB) prices are "paid for coffees that are delivered and placed onto the ship at the port in the country of embarkation. They typically cover any overland transportation costs from mills or warehouses to the port of origin, but not any overseas shipping, insurance, or any transportation, customs, and overland freight costs incurred on arrival to the port of destination" (International Chamber of Commerce).

The average of the exchange rate between February and July 2019 was taken for the Brazilian real, Colombian peso, and Mexican peso for the conversion to US dollars.

	US/\$lb. green coffee
ICO composite price	0.98
Mild Colombians	1.28
Other Milds	1.26
Brazilian naturals	0.97

Figure 4: Average ICO prices per group, February–July 2019

As a reference, the average ICO prices per group for the same period from February to July 2019 are shown in Fig. 4. Producers from Colombia and Mexico often sell their coffee in parchment, in some cases, even in cherry, as is the case of Mexico.<sup>63</sup> Fig. 5 reflects the numbers in parchment coffee as this is the product primarily sold by producers. In the case of Brazil, producers mainly sell their product as green coffee and are shown in a separate table. Both Brazil and Colombia have internal market price systems, and these conventional prices are set per region.

Colombia also includes a premium differentiation for certifications such as Fairtrade, Organic, Nespresso, Rainforest Alliance, or UTZ, which then also differs per region. For Colombia and Mexico, the domestic market has proven, on average, to be more profitable for producers with specialty coffee. The prices defined during these transactions are based on quality/volume considerations without considering international market prices, which perhaps contribute to the effect of them being higher.

For Brazil, only prices for Arabica coffee are considered. The internal market price is also lower than the specialty price, although the difference is less, US\$0.48/lb., in comparison to Colombia and Mexico.

In the case of Colombia and Mexico, milling and transportation costs were, in almost all cases, absorbed by the local buyers. In Brazil, some local buyers even pay the taxes for the producers, which is mandatory when selling green coffee.

The SCTG has monitored the FOB prices of specialty coffee throughout three harvest seasons, 2016/2017 to 2018/2019. Using the three-year sample, the latest version of the SCTG included a set of estimates of country price differences that account for quality scores and lot size differences. These country price differences were incorporated into the median SCTG FOB price, US\$1.83, with a quality band from 82 to 83.9 to reflect the country's price for 2019. The estimate country price difference for Brazil is –US\$0.34, Colombia –US\$0.17, and Mexico US\$0.04.<sup>64</sup> The outcome is reflected in Fig. 5.

Overall, the prices fetched by producers in these relationships with domestic specialty buyers are very competitive, even considering the average FOB prices for specialty coffee, indicating that it pays to explore the market for specialty coffee in their own countries.

It is relevant to note that the interviewed producers shared that their coffees are sold as conventional and specialty.

Price in US\$/lb.	Colombia <i>parchment</i>	Mexico <i>parchment</i>	Brazil <i>green</i>
Internal <b>conventional</b> market price	0.82	0.80	0.93
Internal <b>specialty</b> market price	1.86	2.55	1.56
Specialty Coffee Transaction Guide <b>FOB Price</b>	1.66*	1.79*	1.49

Figure 5: Comparison of internal conventional, internal specialty, and SCTG FOB prices across Colombia, Mexico, and Brazil. The SCTG FOB price is listed in US\$/lb.

<sup>63</sup> Parchment coffee means the green coffee bean contained in the parchment skin; to find the equivalent of parchment coffee to green coffee usually multiply the net weight of the parchment coffee by 0.8 for easy calculation, as the conversion calculations differ per country. Green coffee means all coffee in the naked bean form before roasting (ICO Rules of Statistics definition).

<sup>64</sup> All data is available in The Specialty Coffee Transaction Guide, 2019 version.

## From Obstacles to a Landscape Potential

Although the numbers seem positive, it is key to summarize the general landscape.

Farming coffee remains a challenge on its own; selling directly to a buyer comes with other worries. In some of these regions, producers often lack a reliable cell phone reception, which complicates creating and maintaining commercial relationships.

Additionally, both producers and buyers manifested that supply, as well as demand, can be inconsistent. Examples were given about volume and quality agreements that were not met. In some cases, coffee was sold to another buyer. Another issue manifested was that often orders are requested irregularly or at the last minute.

Nonetheless, for producers—some of whom speak a native language, in addition to Spanish—negotiating in a familiar language facilitates business, especially when selling to someone from their own culture, as both understand the country and regional challenges. Combined with less paperwork, this leads to less transaction time.

Roasters and coffee shops expressed that setting up their business was costly, as the availability of specific equipment—for roasting and brewing—is challenging to find, options are limited, and importing comes with a high price. For a majority of the coffee shops in Brazil, Colombia, and Mexico, most of the fixed costs are specialty coffee, rent, and labor.<sup>65</sup>

Despite the obstacles, roasteries and coffee shops have proven to be successful in many of the cases: they expand after a couple of years or take on different activities, such as roasting.

Specifically, when talking about roasting and brewing, the quest for information and knowledge remains in these countries. The prime barrier is language, and although the essential information is available, a need was expressed to have access to more information.

Others indicated cost as a hurdle, as it inhibits the ability to offer education to their baristas.

Baristas also indicated that due to their salary, they are not able to afford a course on their own; many reported needing to save and borrow.

This also applies for coffee technicians and professionals who want to become cuppers.

**"It is essential to have a promotion program in place that informs Colombians on what the characteristics are which make our coffee great. This way consumers are able to value our coffee."**

- Iliana Delgado Chegwin  
Relationship Manager, Azahar Coffee  
Company in Bogotá, Colombia

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<sup>65</sup> Based on the interviews held.

Producers interviewed specifically expressed that they would like to improve their post-harvest equipment and have more mills available where they can process their coffee. All most all requested more availability of processing and marketing information in their own language.

Financial support, again, proves to be crucial in doing business.

Other concerns related to a lack of or poor infrastructure and unstable (economic) situations in their countries. Among all countries, a common thread was a desire to have more promotion focused on consuming coffee locally, thereby highlighting the specialty coffees. The specialty coffee segment for particular smallholders can be of tremendous value since producing coffee continues to be mainly an investment (expense) with a non-existent or slow return.<sup>66</sup> These smallholders produce low volumes and the uptake by local buyers forms an opportunity which normally they would not have, as exporting differentiated coffee and with a similar price would be almost an impossible market to enter.<sup>67</sup> This is primarily due to their small volumes and lack of a network.

According to an article by Jonas Ferrareso, this is even true for Brazil. While known for its mechanized farming, a recent study by Brazil's Institute of Geography and Statistics confirms that 64% of Brazil's 300,000 coffee farmers are "small" farmers with fewer than 20 ha, 19% are considered "medium" (farming 20–50 ha), and only 17% own more than 50 ha of coffee. The same survey found that 73%—three-quarters!—of Brazil's coffee is harvested manually or using only a partially mechanized technique, with only 27% of the cherries harvested entirely mechanically. Manual producers, primarily smallholders, have costs estimated to be 30–50% higher than fully mechanized harvesting producers, according to this study.

## Growth Potential

In the last few years, there has been a rise in specialty coffee supply. Quality competitions, like Cup of Excellence (COE), national auctions, and other similar events, have contributed to this growth in quality coffee production and might indicate an even more significant potential. Fig. 6 reflects the amount of lots selected in recent years for the COE competition, managed by the Alliance of Coffee Excellence (ACE).<sup>68</sup> The countries are mostly maintain the number of entries in the competition: in 2019, Brazil had fewer lots as they combined their pulped naturals and naturals competition. ACE also noted that buyers of Brazil, Colombia, and Mexico are increasingly interested in to registering and buying these coffees, as the Cup of Excellence seal is valuable for them. The seal proves traceability and authenticity of the coffee, a differentiation in a competitive market which the buyers are looking for.

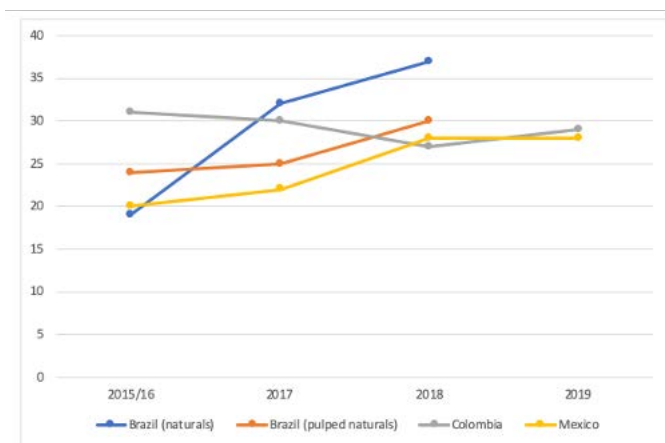


Figure 6: Lots selected in the 2019 COE competition  
Source: Alliance of Cup of Excellence (ACE) January 2020

<sup>66</sup> 25 Magazine, Issue 11, Leme Ferrareso, J.; "Beyond the Stereotype 2019."

<sup>67</sup> Fernández Alduenda, M.; Roast Magazine, "México y su vocación cafetera," 2019

<sup>68</sup> Cup of Excellence® is the premier coffee competition and auction worldwide. It is also the highest award given to a top-scoring coffee. All of the Cup of Excellence award winners are cupped at least five times (the top ten are cupped again) during the three-week competition. The prices that these winning coffees receive at the auction have broken records repeatedly and prove that there is a huge demand for these rare, farmer-identified coffees. The Alliance for Coffee Excellence (ACE), a not-for-profit, owns and manages the Cup of Excellence program.

Selling coffee on the domestic market and building local business relationships have benefitted producers, especially smallholders. Producers understood that their coffee could be of value, which is then also recognized as such and remunerated better. From the interviews with producers and buyers, it was noted that producers became more aware and, subsequently, more attention and care was provided to the coffee, particular during harvest and post-harvest. Aside from this aftereffect, the relationship led to more knowledge and understanding around coffee between both parties—all of which has led to an increased motivation to continue coffee farming.

On the other hand, specialty coffee is, for the moment, a niche segment within domestic consumption. Therefore, it is pivotal to understand what elements contribute to maintaining and expanding these business relationships to benefit producers more, especially when the reward and value capture is high.

**“We know that a producer has many costs which include payment to workers. We want to make sure they pay a living wage to their workers.”**

- Abel Calderon  
Co-owner of specialty coffee roastery and coffee shop Varietale, in Bogotá, Colombia

One of the defining factors of the growth of coffee consumption worldwide is economic stability; Brazil, as a producing country, specifically exemplifies this. When people had more disposable income, coffee consumption rose, creating the opportunity for specialty coffee to differentiate itself as consumers started to drink it more frequently, especially out of home. Understanding the demographics of the consumer, plus their demands and habits, is essential. Knowing the demands, patterns, and trends of local consumers is easier than obtaining these insights from other countries. Producing countries will need to invest in consumer research and statistics; Brazil has been a frontrunner and regularly conducts national consumer surveys.

In general, the population of all four countries has grown significantly in recent years, especially the age group of 25–54, partly millennials and Generation X, which is a large consumer group that has started to drink more coffee out of home (Fig. 7, Fig. 8). An even younger generation, aged 15–24, is drinking coffee more frequently. This also correlates with the overview of what type of coffee a particular age group is consuming, according to Janice Anderson.<sup>69</sup>

		Brazil	Colombia	Mexico
Population	Million	209.3	49	129
15-24	%	16	17	17
25-54	%	44	42	41
55-65	%	9	9	8
Urban Areas	%	86	80	80
GDP	USD	9821.4	6408.9	8910.3

Figure 7: Population of the countries reviewed by the study

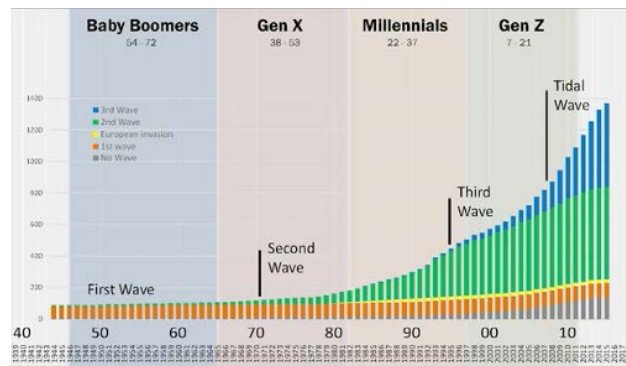


Figure 8: Generations and waves of coffee consumption  
Source: J. Anderson, CEO of Premium Quality Consulting, LLC

<sup>69</sup> Re:co Symposium 2018, “The State and Future of the Business of Coffee, part II”, moderated by N. Cho.



A large percentage of the population is living in urban areas, precisely where the majority of the coffee shops are located. Consumers drinking specialty coffee come from various socio-economic classes, from working to upper class. Coffee shops can be found in all kinds of neighborhoods, and consumer prices are relatively similar in dense urban areas and smaller cities.

Fig. 9 shows the average US dollar price of beverages in coffee shops. As you can see, despite the age and economic position, consumers are willing to pay for these coffees, even if it is on the higher end of their average spending on food and beverages.

Avg. Price US\$	Brazil	Colombia	Mexico
Espresso	3.15	1.34	1.88
Cappuccino	2.68	1.82	2.20
Methods (0.3 oz)	3.61	1.68	2.24

Figure 9: Average US dollar price of beverages in coffee shops

Specialty coffee's consumption potential is based not only on volume but also on the potential value it can generate for each country. According to the latest ABIC survey, specialty coffee represented 12% of total coffee retail sales in 2018. Meanwhile, the number of coffee shops in Brazil has increased 3.2% over 12 months. Indeed, the retail value of Brazil's specialty coffee market is expected to reach US\$1 billion (R\$3.9 billion) by 2020.<sup>70</sup>

The estimated value of the Colombian internal coffee market will reach US\$1.93 billion in 2013, an estimated increase of 26% from 2018, when the value was calculated at US\$1.52 billion.<sup>71</sup>

The domestic consumption report for 2016 reported a total value of the Mexican coffee industry of around US\$1.9 billion, with an annual growth rate of 2.4%.<sup>72</sup> This means that for 2019 the estimated value would be US\$2.2 billion.

## Specialty Coffee Consumption as an Impact Business Model

Drinking coffee is not new for every producing country; all producing countries drink coffee. However, in the last 10 years, it has been stimulating to witness the particular increase in consumption of specialty coffee and its future potential. The third-wave concept of drinking coffee reached these countries, and in some ways, the waves passed at a faster rate: specialty coffees produced locally, served in local coffee shops, roasted by specialty coffee roasters have found their way to the consumers. Of particular importance is the price received by the producer for their coffee.

The shared goal of cup quality is the start of the relationship which expands to a broader understanding of the local conditions and needs of the producer by the buyer. It then culminates in a business relationship where a producer improves their income. The vision these SMEs have is to serve the best coffee to their customers, community, and country. Mutual learning and knowledge development have led to a better value comprehension of specialty coffee and its business. Producers learned how to improve their practices and add value to their coffee. These buyers are conscious of where the coffee is coming from and believe in paying prices for coffee, by acknowledging the costs and risk producers assume. When these statements translate into actions, buyers pay prices on par with export markets to guarantee a supply of coffee for future harvests and a decent income for producers.

**"The way we source is doing business with justice and equality for the producer."**

- Hugo Wolff, owner of specialty coffee roastery Wolff Café, in São Paulo, Brazil

<sup>70</sup> Allegra World Coffee Portal "Brazil's billion-dollar specialty coffee industry."

<sup>71</sup> America Retail, "Colombia: Consumo de café en el país aumenta un 4%" April 2019.

<sup>72</sup> Euromonitor Análisis de Consumo México 2017.



Starting up proves to be a financial burden for small and medium specialty roasters and coffee shops, but their dedication, vision, and passion for coffee have led them to make it work. Many expand their activities after a few years. The financial, logistic, and communication issues have formed no major barrier to sourcing coffees from several regions of the countries mentioned, primarily from small and medium producers. This has led to successful local impact business models, which benefit specifically smallholders, who continue spending in their communities.

More people are drinking coffee and the projection is that more people will drink specialty coffee at newly defined places: Generation X and millennials are identified as the fast-growing population groups that are drinking coffee. To understand the consumer trends and statistics, producing countries and their institutions need to execute frequent studies that allow for the sector to respond to the local consumer behavior. One thing is for sure, consumers have shown signs that they are willing to pay for specialty coffee as baristas share with them the story behind coffee, by explaining what specialty quality coffee is, giving the consumers a unique experience and insight into their country, linking it to local flavor notes, gastronomy, and customs. In this, baristas in producing countries have become the influencers of sustainable specialty coffee.

The following identified pillars will foster a strategy to impact positively on rural development by boosting the consumption of specialty coffee, thereby benefiting small and medium enterprises, specifically smallholders. From Brazil, it was learned that **economic and social stability** is key for consumers to maintain and even increase their spending. **Financial structures** are vital to support these SMEs in doing business, and financial services need to be expanded to producers.

Creating a program for the promotion of coffee consumption led to success both in Brazil and Colombia: professionals were trained and consumers

were informed, and thus more coffee was consumed, which led to more demand in understanding local specialty coffee. Additional factors in this positive outcome were the active role of institutions(s), the unity of the sector, support from the private sector, and having a communication strategy. Additional investment efforts should be made in **education, training, and knowledge development** of these coffee professionals, which can even be the softening of the costs of courses and membership fees to mitigate the issue of low salaries and social benefits of coffee professionals.

The entrepreneurs in these stories have managed to reflect and build from the global and local social-economic bottlenecks, setting up local supply chains that work for them and their customers. Business is inclusive, as these producers are clearly part of the equation of a sustainable specialty coffee chain.

An inherent commitment and pride appear throughout these interviews and has contributed in defining what specialty coffee is in these producing countries. Ric Rhinehart mentioned during Re:co Symposium 2019:

Specialty coffee may be defined as coffee, from a known geographic origin, that has a value premium above commercial grade coffee due to its high quality in the cup and to particular attributes that it possesses. We are also compelled to consider the sustainability of the product when defining specialty coffee. That is, even if a coffee results in a great tasting beverage, if it does so at the cost of the dignity, value, or well-being of the people and land involved, it cannot truly be a specialty coffee.

**Quality is a determining factor** for all supply chain actors in producing countries; in these relationships, it was clear that **the costs of dignity, value, and well-being of the people and the land were considered within the price paid to the producers, thereby creating value and impact.** If consumption in producing countries is stimulated actively, 100% of the value of coffee can be captured here.



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