Coffee Industry

Coffee is the world’s most valuable agricultural commodity. The coffee industry in the United States, and around the world, has exploded in recent years. Instead of simply drinking caffeinated and decaffeinated, coffee consumers are trying different types of coffee, such as, cappuccino, espresso, mocha, and latte. Consumer demand is ever increasing, and as consumers drink more and more coffee, quality and value become more and more important. One of the ways of improving the quality and value of coffees around the world is to integrate, collaborate, and improve existing supply chains. The majority of producers operate on farms that are less than 10 acres in size and in very remote locations. This can make it increasingly difficult to operate an efficient supply chain (http://www.thetimes100.co.uk).

Coffee Supply Chain

The function of any supply chain is to successfully and efficiently manage the steps in production process as raw materials are turned into a finished product, and ultimately sold to consumers. The supply chain within the coffee industry can be very complex and difficult to manage. The main links within the coffee supply chain include:

- Growers
- Intermediaries
- Processors
- Government agencies
- Exporters
- Dealers/Brokers
- Roasters
- Retailers
These links are not necessarily mutually exclusive and different organizations within the supply chain can perform a variety of functions (http://www.thetimes100.co.uk).

Growers

Coffee grows best in warm, humid climates. Ideally the temperature would remain relatively stable. The majority of coffee is grown between the Tropic of Cancer and the Tropic of Capricorn, where the climate is typically ideal for coffee production. Coffee growers usually produce coffee beans on very small plots of land, in often times, remote locations. Coffee producers also might perform some value adding activity to the coffee. Some producers dry and haul the coffee themselves (http://www.thetimes100.co.uk).

Growers Cooperatives

Many producers around the world are forming cooperatives to help them negotiate coffee prices and improve the quality of live in their communities. These cooperatives are an excellent example of the collaboration of the growers within the their communities.

Mexico - Mut Vitz

Mut Vitz is a coffee producer’s cooperative located in the Northern Highlands of Chiapas. The cooperative includes over 1,000 producers within the surrounding communities. Production estimates for the cooperative are over 15,000 100-pound bags of high altitude coffee. The cooperative is now seeking to gain an export license for the government. Members of the cooperative are also moving to produce coffee that is certified organic, which will allow them to enter a new, up and coming, market niche. Members are also participating in a knowledge-sharing program, where technology and
know-how are transferred between members. They have also worked together to establish a strong organizational structure within the cooperative (www.globalexchange.com).

Mexico - Union de Comunidades Indígenas de la Región del Istmo (UCIRI)

UCIRI is a cooperative of small producers of the Sierra Juarez. It was formed in 1982 and currently has 3500 active partners. Outside of coffee production the organization works to improve education, healthcare, and transportation. The have also established programs to maintain and preserve the quality of the soil and farmland within the communities of the cooperative (www.globalexchange.com).

Columbia – Cosurca

Cosurca is one of twelve cooperatives in Columbia. The twelve cooperatives represent more than 6000 coffee growers in Columbia. Cosurca is a relatively new cooperative, but one of their early projects is to establish a community compost site. This enables them to fertilize coffee with organic material allowing them to sell coffee under the organically produced label (www.globalexchange.com).

Buyers often set coffee prices because the producers are often unorganized and small. Cooperatives within these countries allow coffee growers more negotiating power when it comes to setting coffee prices. Also, as mentioned before, cooperatives within these communities work to improve the standard of living of their members. By integrating technology and knowledge sharing programs producers will be more efficient and effective when producing and marketing their products.
Intermediaries

The intermediary link in the coffee supply chain can be very complex and complicated. They can be involved with many of the different links in the chain. Intermediaries may buy the coffee cherries directly from the growers and sell them to processors, brokers, or exporters. They often times do some form of processing to the coffee, but do not necessarily have to. Intermediaries often buy the coffee from many different farmers, and then transport them to members higher up in the supply chain.

Processors

Processing coffee involves converting coffee cherries into green coffee bean, which can then be sold for export. Processing can be done by the growers themselves or by another independent member of the supply chain. Processing does required machinery to perform the needed tasks, which limits the about of processing growers can perform. Often cooperatives can perform some of the converting processes if relationships amongst growers have been established. Coffee processing involves:

- Picking
- Drying and hauling
- Sorting, grading, and packing
- Bulking
- Blending
- Roasting

The coffee growing and producing industry is very large and labor intensive. It is estimated that 60 million people earn some or all of their income from coffee, which is 1% of the world's population.
**Government agencies**

In some countries the government controls the coffee industry. Governments often buy coffee cherries from producers or from processors for a set price and then sell the coffee to exporters or brokers.

**Exporters**

An exporter often buys coffee from cooperatives or from auction houses in various countries and then ships the beans to the desired location. Exporters must have an excellent knowledge of where coffee is grown and the quality of the coffee produced. They are looked upon to guarantee the quality of the coffee sold to brokers (http://www.thetimes100.co.uk).

**Dealers/Brokers**

Coffee brokers simply supply the beans to roasters in the right location at the right time. Dealers must form excellent relationships with exporters, as much of their business is dependent on the quality of the beans sold to roasters (http://www.thetimes100.co.uk).

**Roasters**

Roasters turn the green coffee beans into marketable products. Retailers can preform the roasting process or it can be its own distinct process in the supply chain. Roasters can also add value to their products through marketing, branding, and packaging.

**Retailers**

Retailers sell the final product to the final consumer. This can include supermarkets or small independent retailers. Starbucks is an excellent example of a large coffee retailer here in the United States.
The supply chain is only as strong as its links. The coffee chain is very long and can be very complex. Many different organizations handle the coffee at different times, which can complicate communication between its members. Communication, and the establishment of relationships, is key in successfully managing any supply chain. These relationships can take a long time to develop and a lot of work to maintain. As with all strong relationships, they are built on trust and honesty.

**Trends**

There are many current trends that are affecting the coffee industry. The price of coffee has fallen to historic lows, which is causing a coffee crisis around the world. It can be very difficult in countries like Uganda that derive as much as half of its export revenues. Also, those involved within the industry are working together to develop new markets around the world. This is intended to increase coffee demand and consumption and therefore increase profits. Another trend related to increasing coffee consumption is the development of the specialty coffee segment, which are coffees that are beyond the traditional coffee blends. Quality management is also a large concern for coffee producers and much collaborative effort has been made to increase the quality of coffee worldwide. The final major trend dealing with the collaboration of the coffee industry is the treatment of coffee growers. In many countries growers are unable to support their families with the income from their coffee farms. Because the supply chain is so complex the farmers are often hurt the most by falling coffee prices. There has been a great movement to start selling “fair trade” coffee at the retail level. “Fair trade” coffee guarantees that growers will be paid a livable wage for their coffee.
Coffee Prices

Coffee prices are reaching historic lows. This is creating a crisis in many developing countries that are so dependent on the coffee industry. In the early 1990s earnings for coffee producers around the world was estimated at $10-$12 billion and coffee retailers earned an estimated $30 billion. Today, with coffee prices at all time lows, producers are earning $5.5 billion a year and retailers are earning $70 billion.

*The chart above shows the sharp decrease in green coffee prices*

This sharp decline is being caused by an imbalance of coffee supply and coffee demand around the world. Demand for coffee is at estimated level of 106 million 60-kilo bags and the supply is at an estimated 113 million 60-kilo bags. Prices are likely to continue to fall as production is increasing at 3.6% a year and demand is only increasing by 1.5% a year (www.ico.org).

This will obviously hurt producers tremendously if the trend continues. There are currently over 25 million coffee growers around the world, each of which will be hurt significantly by lower prices. Because coffee is such a large portion of developing
countries income, spending on medicine, education, and technology will also decline. Therefore, developing countries’ futures are at stake. If spending on education declines then developing countries will continue to suffer and struggle even more to gain an advantage around the world.

Consumer will also be affected by lower coffee prices, but not in the way one would expect. The percentage of actual dollar value that goes to producers for the sale of coffee at the retail level is around 2%. Therefore, as coffee prices for producers decline the final consumers will see little difference in retail coffee prices. Also, when prices are as low as they currently are quality also tends to decrease. Growers usually pays pickers to go through coffee trees three times a season to pick cherries as they become ripe but with prices so low they can only afford to pay pickers to go through trees once a year instead, pickers are forced to pick unripe or overripe coffee cherries, lowering the quality of the overall product (www.ico.org).

**Market Development**

The International Coffee Council is currently seeking to increase the coffee consumption of the 80% of the world that does not consume coffee. The Chinese and Russian markets are going to be major markets that promotion and marketing will be conducted. The International Coffee Council will look to increase coffee consumption by holding coffee festivals and associated coffee with cultural events. The main objectives are to develop, through education, promotion and media coverage, a coffee culture that would enhance the image of coffee drinking. Imports of coffee into China have more than doubled and imports into Russia have gone up 75% since promotional activities began. They are also looking at promoting coffee’s positive health features to the
markets that coffee already has a strong market share, such as, the United States (www.ico.org).

Specialty Coffee Segment

The specialty coffee market is rapidly increasing in the United States. Specialty coffee is premium priced 25% higher than value brands. In 1990, only 3 percent of all coffee sold in the U.S. was priced at a premium, today over 40% of coffee is priced at the premium level. These specialty coffees include lattes, mochas, espresso, and cappuccinos. The organic coffee industry is also expanding. Different growing techniques must be used to produce organic coffee so growers must be aware of shifts in demand. Retailers or brokers must communicate with suppliers as demand fluctuates to increase the production of specialty coffee. This is done by paying premiums over standard coffee prices to get cooperatives and other producers to increase production (www.ico.org).

Quality Management

In May of 2001 the International Coffee Council adopted a resolution encouraging countries to take measures to divert defective coffees from the market. The idea is to, “implement measures designed to improve the quality of coffee on the global market through restricting exports of coffee below a minimum accepted quality level and diverting low grade coffee to alternative uses.” A Coffee Quality-Improvement Program was formed to implement outlining framework for the quality management program. The program will consist of minimum standards for exportable coffee. It is designed, “to improve the balance between supply and demand of coffee by stimulating demand through the provision of a better overall standard of quality to the market.”
“Fair Trade” Coffee

Fair trade coffee is a consumer-based movement that works to improve the treatment and living conditions of growers around the world. Because of historic low coffee prices many growers do not earn enough from selling coffee to support their families. Therefore, consumers are trying to establish programs that form, “equitable and fair partnerships between consumers in North America and producers in Asia, Africa, Latin America, and the Caribbean.” Fair trade coffee guarantees producers $1.26 per pound of coffee produced, which is a livable wage. Currently coffee prices are around $.50/lb. This is the first commodity in the United States for which consumers have demanded fair prices for producers around the world. It is significant because it clearly shows the linkages between the beginning and final stages of the supply chain. Currently, Proctor and Gamble has agreed to offer a higher priced, fair trade, coffee to consumers. Starbucks has also been offering premium priced, fair trade, coffees to consumers (www.globalexchange.com).

Conclusion

The coffee industry is becoming more and more interdependent and interrelated. The supply chain can be very complex and complicated because there are so many different and diverse layers. Producers, which are the base of the supply chain, are often located on remote and distant farms in undeveloped countries. Therefore, it requires a very long and complicated chain to get finished coffee products to consumers, often-located thousands of miles away. The success of these chains is dependent on the relationships of those involved. Producer cooperatives are a very clear indication of the interdependency and collaboration of the growers around the world. In these cooperative
growers share information, technology, and are able to collectively negotiate for higher prices. We can also see a great deal of collaboration within members of the supply chain in the current trends of the coffee industry. The move for higher quality and quality management programs shows how different members of the chain are working together to improve overall products. Also, the move to improve new market development indicates how all members of the chain are working together to improve overall demand for coffee. Along the same lines, the advancement of the specialty coffee market is increasing demand for specific coffees, but must be communicated to growers around the world so that production will also increase. The fair trade movement shows the power and interrelationship that consumers have on the market and the supply chain as a whole. As coffee supply chains move into the future, their success will depend upon their ability to integrate and collaborate. Each layer of the chain must work to form relationships with, not only those links that surround them but with the supply chain as a whole.