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Which trends offer opportunities on the European coffee market?

The European coffee market is changing. Speciality coffees and single-serve methods are growing in popularity. Sustainability remains important. For several buyers and retailers in Europe, certification is no longer an option, but a requirement. In addition, consumers and the industry are demanding traceability in the value chain. This has resulted in the growth in direct trade between producers and European roasters. The mainstream market sees an increasing concentration of multinational companies in coffee trading and roasting.

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1 . Most European consumers still purchase mainstream coffee, but speciality is a growing segment

The majority of European consumers still purchase cheaper mainstream coffee, usually in the form of standard blends. Recent research suggests that most European consumers still do not distinguish between low and high quality coffees. This indicates that there is lack of consumer awareness and education regarding speciality coffee.

At the same time, industry insights suggest that a growing number of European consumers is prepared to pay higher prices for high-quality coffees (with high cupping scores between 80 and 100) with a special story. The increasing interest in speciality coffee is reflected in the growing number of coffee bars, small roasters, small local brands and baristas. There is no exact definition of specialty coffee, therefore we can’t provide exact market figures (see our study on European demand for coffee for more information).

Within the market for specialty coffee three developments stand out:

- *Signature blends*: These are carefully selected coffees from various origins which reach unique taste palettes. They cater for specific consumer tastes and communicate balance and quality. Examples: various blends of Coffee Masters (United Kingdom) and BorgmanBorgman (Netherlands).
- *Single origin*: The origins of coffee are receiving increasing attention from the industry and consumers. Single origin is associated to high-quality and uniqueness from a certain region or country. At Starbucks, the world's largest coffee chain, single-origin coffees have also started to conquer space. Examples of single origins are: Jamaican Blue Mountain, Hawaii Kona, Top Kenya AA, and Guatemala Antigua.
- *Micro-lot*s: The speciality coffee market has also led to an increase in *micro-lot*s. These higher quality coffee beans sold separately, in quantities up to 50-75 bags, for a higher price. Micro lots are allowing for more direct trade between producers and smaller buyers (such as specialised traders and smaller-scale roasters). This opens up an interesting opportunity for top quality and value-added coffees.

Tips:

- Learn more about cupping scores on the website of the Specialty Coffee Association (SCA). Consider also obtaining a Q-grader certificate to be able to cup and score your arabica coffee according to international standards of aroma and taste.

- Provide the correct documentation. Buyers might expect evidence of the grading process and the final cupping score of your coffee. The fragrance, aftertaste, balance, sweetness and uniformity are important topics in this grading process. The exact minimum scores differs per country and buyer: The specialty cupping score can range between 80 and 100. However, some buyers might consider 80 too low and demand a cupping score of 85 or higher.

- Investigate opportunities in high-quality micro lots. Refer to the Cup of Excellence platform to find more information on micro-lots, as well as to connect with other industry players and potential buyers.

- Develop and articulate your unique selling points as a supplier of specialty coffee. Think about what sets you apart from your competitors and create your marketing story around it. It can for example be related to the origin of your coffee, the agro-climatic characteristics of the producing region, the culture of the producing communities or the unique quality of your product such as your cupping score (or a combination of these aspects).

- Use the website of the Specialty Coffee Association (SCA) to find news, events and resources related to speciality coffee in Europe and America.

2 . European coffee consumers become more knowledgeable and demanding

The coffee market is said to develop in so-called waves. The first wave (1960s) was marked by the popularisation of coffee consumption in Europe (this wave is currently noticeable in several developing countries). The second wave entailed a shift to higher quality coffee (1980s and 1990s in Europe). The European coffee market is currently experiencing the third wave, with a growing demand for speciality coffees and sustainability (see above).

In some parts of Europe, the higher-end segment of the coffee market is going into the fourth wave. This wave is characterised by what is called the science of coffee. This means understanding the coffee bean and its preparation becomes crucial.

While consumers become more knowledgeable about roasting and brewing, coffee roasters and baristas incorporate new techniques in their portfolios by exploring the properties of coffee, such as cold coffee brewing with nitrogen.

Tip:

- Keep yourself informed on the latest developments on the European coffee market. Check out the websites Perfect Daily Grind, Daily Coffee News, World Coffee Portal, Speciality Coffee Association of Europe: News and Events, World Coffee Press and Comunicaffe International.

Single-serve methods follow the quest of consumers for convenience

Retailers in northern and western Europe are expanding their assortments of single-serve methods (such as coffee pods and capsules). This market is dominated by Nespresso (25% of European market in 2015).

The ease-of-use of these products, their good marketing and the wide variety of flavours available have contributed to an increase in their popularity. The market for pods and capsules also opens space for the popularisation of speciality coffees of different origins and flavours.

However, coffee pods and capsules have developed a negative image due to their potential environmental impact. The same applies to plastic straws and disposable coffee cups. This has led to different initiatives around Europe. For example, the city of Hamburg banned coffee pads and other disposable coffee products from its local governmental buildings in the beginning of 2015. This was to reduce the environmental waste of the local government.

Tip:

- Try to identify European roasters who manufacture private label packaging of pods or capsules and try to supply green coffee to them. You can read our study on how to find buyers on the European coffee market for more information.

Innovation and do-it-yourself are growing concepts in coffee

Innovation in coffee is a part of the so called fourth wave. Skilled coffee brewers and baristas create a deeper understanding of the properties of coffee. They use advanced equipment to brew and develop wide portfolios and qualities.

Additionally, some innovative ways to process and use coffee (beans) on the European market are:

- Nitrogen induced coffee is a cold coffee brew with similarities to beer. Starbucks has started to experiment with nitrogen induced coffee in their shops in the United States. Meanwhile, ‘nitro’ coffee is also gaining popularity in Europe, see for example this article about nitrogen-induced coffee in the United Kingdom.
- Cascara tea is a tea made from the dried skins of coffee cherries. Until recently the tea was rarely produced for export. It is commonly consumed in some coffee-growing countries, such as

Bolivia. Web shops throughout Europe are now selling cascara, such as BOOT (the Netherlands), Has Bean Coffee (the United Kingdom), and Capasseo (Germany).

Consumers are also starting to roast at home. This has caused a growing interest in the purchase of green beans instead of roasted beans.

The roast-at-home market is a very small fraction of the market. Most of the trade happens via web shops, in small packaging sizes. It is usually linked to coffee-roasting machine deals — see the UK's Bella Barista and Ikawa, and Germany's Bonaverde.

Tip:

- See the website of the Speciality Coffee Association (SCA) to learn more about baristas using speciality coffee and new coffee skills program. Baristas Skills can be studies at three different levels, with the highest (professional) level focusing on a scientific perspective to coffee brewing.

3 . Certification becomes a market requirement

European consumers are increasingly concerned about the social and ecological impact of their consumption. This has a great influence on the coffee market, where sustainability commitments are becoming more popular and companies are increasingly required to conform to them. However, note that there is currently more certified coffee in the market than actually sold.

Certification showed a sharp growth within the coffee market in recent years. Both the production and sales of sustainably-produced coffee have grown significantly more than conventional coffee. The European market plays a major role in the market for certified coffee. Certification has become a market requirement of several buyers and retailers, becoming essential for medium and large coffee companies. Smaller coffee roasters in the speciality segment are more interested in trust building with suppliers and increasingly in direct trade, and less so in third-party certification.

The major production standards in coffee are:

- Fairtrade
- organic
- Rainforest Alliance (now merged with UTZ)
- C — Common Code for the Coffee Community, a verification rather than certification scheme which was acquired in 2018 by Meo Carbon Solutions.

The importance of the various certification schemes differs from country to country. They also cater to different markets: UTZ and Rainforest Alliance have large-scale operations and reach mainstream markets in Europe. In 2017, Rainforest Alliance and UTZ announced they would merge into a single organisation and certification named Rainforest Alliance, resulting in an comprehensive combined market share. For example, the giant Dutch retailer Ahold Delhaize, which developed its UTZ certification programme, uses it in the Netherlands and Belgium. Yet another example of the large market share reached with the merger of UTZ and Rainforest Alliance, all coffees served at Marks and Spencer cafés, from the United Kingdom, are Rainforest Alliance certified.

Rainforest Alliance uses the respective strengths of the current Sustainable Agriculture Network (SAN) and UTZ standards while creating a single auditing process for certificate holders. The new single standard will become active end of 2019.

Organic and fair trade remain niche markets which are especially popular in Germany, Switzerland, Scandinavian countries and the United Kingdom.

Smaller certification schemes also gain more visibility in Europe, addressing issues such as biodiversity. An example is bird-friendly certified coffee, which is currently mostly available in the United Kingdom, where most importers and roasters using this certification are located.

Tips:

- Refer to our study on sustainable coffee for more information on trends, figures and developments in this market.
- Be aware that there is currently more certified coffee in the market than actually sold. This means it could be difficult to bring your certified coffee to the market. See the Coffee Barometer 2018 for more information about the development of certifications in the European coffee market.
- Consider attesting the sustainable and ethical aspects of your coffee production with certification or verification standards. See our study on doing business with European buyers of coffee for more tips on marketing and promotional aspects of your coffee.
- Before engaging with specific certifications trajectories, verify whether there is sufficient demand in your target market. Discuss possibilities with buyers, and consider the costs involved in the certification process.
- See our study on buyer requirements for the coffee sector to learn more about certification schemes.
- See our factsheets to learn more about demand for certified coffee in the following European countries: France, Belgium, Netherlands, Italy, United Kingdom, Finland, Germany and Poland.

Increased transparency along the chain remains top priority

Growth in certification also relates to a growing demand in Europe for transparency and traceability of food products, including coffee. Importers, roasters and retailers are now required to have traceability systems in place to record the path and the history of a product and to monitor the processes it goes through along the supply chain.

One tool to increase transparency and traceability is blockchain technology, which is an open system of decentralised data tracking and storage that also supports cryptocurrencies. In the case of coffee, this means that the database records transactions in a verifiable and permanent way, so you can trace its origins and journey, bringing accountability and increasing transparency into the whole supply chain. The Dutch coffee brand Token is using blockchain technology to bring full transparency to their coffee chain through an initiative of the FairChain Foundation, supported by Moyee Coffee and Bext360.

Tips:

- Learn more about traceability along the coffee supply chain in the UNIDO manual Traceability in the Green Coffee Supply Chain.
- Read more about the application of the blockchain technology in the coffee chain and learn about the implications for the industry on the website Perfect Daily Grind.

Sustainability initiatives in the coffee sector continue to expand

The greater demand for sustainability in the coffee sector stimulates various industry players to take action. This affects not only the private sector, but also international organisations and governments.

Multinational coffee companies have developed their own sustainability commitment programs. For example, Starbucks has its own private standard for quality and sustainable coffee production, called Starbucks' Coffee and Farmer Equity Practices (C.A.F.E. Practices). It opened its first coffee shop in Europe (United Kingdom) in 1998 and the number of Starbucks stores increased significantly since then.

The company Nespresso also has its own private guidelines with a similar approach and focus on quality: Nespresso AAA Sustainable Quality. Nespresso opened its first cafe in Europe in 2000 while operating through a web shop since 1996. Worldwide, Nespresso has currently almost 800 Nespresso boutiques.

In addition to the private sector, the number of sustainability initiatives and events in the global coffee sector is increasing. A few examples are:

- The Global Coffee Platform facilitates global and national action agendas on collective impact for sustainable coffee. It provides a framework to measure and improve sustainability performance and sets a global reference for baseline sustainability in coffee production and processing. The Global Coffee Platform has spurred several initiatives. In Kenya, numerous stakeholders from the national coffee sector and international development actors launched the Kenya Coffee Platform in July 2018 as a collaborative pre-competitive initiative to promote a sustainable coffee sector in the country.
- Conservation International has started the Sustainable Coffee Challenge. It aims to transform the coffee production by moving both specialty and mainstream producers towards a more sustainable production. It also mobilises governments, trade associations and (research) institutes.
- Latin American and African producers have expressed their support to promote a global dialogue that leads to higher and a more stable income for coffee producers, which they hope will ensure the sustainability of the industry as a whole.
- Leading coffee producers in Costa Rica have organized a long-term effort to make the country's coffee sector (production) carbon neutral by 2021. Also, companies are engaging in creative solutions to differentiate themselves before consumers. SLOKOFFIE transported its Honduras-sourced coffee by sail in 2017, under the proposition of reducing carbon emissions as much as possible. An emission-free transportation proposition is also put forward by forwarding company Fair Transport.
- The World Fairtrade Challenge was organized in 2016 to bring the message of Fairtrade coffee to the attention of consumers. During the challenge, coffee consumers from around the world drank more than 5.6 million cups of Fairtrade coffee to share their support for farmers hit by climate change.

Tips:

- Make sure you have a good overview of the opportunities, training modules and support regarding sustainability in your region. There are a lot of (inter)national initiatives to support farmers with their business. For example, you can read websites of local governmental programmes or sector related organisations (International Coffee Organization, European Coffee Federation and Speciality Coffee Association); certifying bodies (Fairtrade, Rainforest Alliance); or agricultural institutes or universities in your country.
- See our study on sustainable coffee for more information about the demand of sustainable coffee on the European market.

4 . Circular economy emerges as a sustainability concept

There is growing concern within the coffee industry about the waste material created during coffee production, processing and consumption. An economy that uses all its residues to create value-added products is called a circular economy, a concept that is gaining ground among European consumers.

The most common sustainability initiatives involve recycling coffee cups, reusing ground coffee residues and reducing energy use in the coffee chain. The Danish start-up coffee trader and roaster Kaffe Bueno, for instance, aims to reduce waste by reusing coffee grounds to produce natural cosmetics. Another successful example in energy production innovation is the partnership between multinational Jacob Douwe Egberts and bus company Veolia, which developed a process to use waste coffee grounds for biofuel. Nestlé is also developing circular economy strategies, seeking more collaboration between the public and private sectors. The world's largest food producer, Nestlé has set a goal to achieve 100% recyclable or reusable packaging by 2025.

Tip:

- Read more about the circular economy and coffee, and how producers can get involved on the website of the Circular Coffee Fund.

5 . Climate change and biodiversity issues are rising in importance

It is estimated that the areas suitable for coffee cultivation will decrease substantially by 2020 due to climate change. Several coffee varieties are also endangered, raising concerns of roasters, importers and other industry players. Climate change can affect the global coffee production due to prolonged droughts, rising temperatures, biodiversity loss and heavy rains.

Recent issues in in the coffee sector that are connected to climate change are:

- outbreaks of coffee rust in Colombia in 2011/12 and in Central America.
- the extreme drought in Brazil in 2014
- the drought in Vietnam in 2016.

To secure long-term supply, several initiatives have been developed to support the fight against climate change and biodiversity loss. For example, Costa Rica was the first to export carbon neutral coffee as they are aiming to become the first carbon neutral country.

Tips:

- Check the website of the initiative for coffee and climate for their practical toolbox to tackle climate change. The website has useful information on how to include all parties in the coffee chain in responding to climate change issues. They provide information on how to enable all parties in responding effectively to climate change.
- Read the article Climate Change Increases Need for Fungicides for Coffee Trees to learn more about the relation between climate change and coffee rust.

6 . Increasing direct trade between producers and small roasters/retailers

In the traditional trade structure for coffee, the raw material is sourced through importers, and then distributed to roasters in Europe. This still represents the bulk of the market, but direct trade initiatives are increasing.

Direct trade is a term used by coffee roasters who buy straight from the growers, cutting out both the traditional middleman buyers and sellers. Most roasters engaged in direct trade are located in Northern Europe, where the concept appeals most to consumers.

The demand for transparency in the coffee chain has strengthened the links between coffee producers and roasters. More and more coffee houses and sustainability-driven brands try to create a direct link to the farmer, also satisfying the consumers' demand to be more closely connected to the source. Through the Internet, producers and roasters can more easily find each other and establish partnerships.

The direct trade between producers / exporters and roasters has normally meant that the importer is taken out of the equation. For some small-scale roasters, direct trade was translated into new challenges and market risks such as logistics, transaction costs, pre-financing, contract defaults, non-compliances and other. For this reason, the role of importers in performing these tasks is crucial to several roasters. In some cases, importers still intermediate the contact and carry out basis tasks, but give roasters good access to producers.

Other roasters have successfully established direct and long-term relationships to producers, and have managed to create an authentic product portfolio to consumers.

Tips:

- Invest in long-term partnerships. When working directly with roasters, it is important to work together with them in increasing your quality and developing concepts. Example: limited editions of top-quality micro lots (see above).
- Make sure you are in control of your supply chain. Know your producers and stand out from your competitors by telling your story: this makes it easier for you to focus on a niche (specialty) market, which increases your chances of obtaining a better price for your coffee.
- Explore online trading sites like Algrano, Beyco (Beyond Coffee) and Cropster to connect to roasters in Europe and elsewhere. See also our study on finding coffee buyers. In this document you will find other tips on how to get started in the coffee market.

7 . Increasing consolidation in the mainstream segment

Both the European and global coffee market won't stop consolidating; in an already competitive and saturated market, large-scale players continue engaging in merges and acquisitions. This is a clear strategy for Lavazza, which has allocated €2 billion to spend on acquisitions. Similarly, Nestlé has recently acquired Blue Bottle (specialty roaster), which consolidates the trend whereby mainstream companies engage further in the specialty market. As a result, more and more producers are working under the umbrella of large-scale companies, having to comply with volume, quality, traceability and other requirements established by these buyers.

At the roasting level, D.E. Master Blenders and Mondelez merged their businesses into Jacobs Douwe Egberts in 2015. It is now world's second largest coffee company, after Nestlé. Moreover, Keurig Green Mountain, one of the largest North American roasters, was acquired as well by the same holding company. As a multinational, they will have a large influence throughout the supply chain, streamlining processes and standards for suppliers.

Another interesting development is the involvement of large roasters in the speciality coffee segment. These companies increasingly adopt terms common to the speciality market such as single origin and premium quality (such as premium coffee capsules). They are thus appealing to consumers who look for signs of quality and self-assurance.

The coffee market is also experiencing consolidation in the out-of-home segment. Coca-Cola recently announced its acquisition of global coffee chain Costa from its UK owner Whitbread. Costa is the biggest coffee chain in the United Kingdom, with more than 2,400 UK coffee shops and another 1,400 outlets in 31 overseas markets.

Tips:

- Investigate whether you can follow the standardised qualities, volume requirements and standards required by large-scale roasters, or whether your product is more suitable to smaller-scale markets. See our study on finding buyers for coffee for more information on different approaches to the coffee market.
- See our study on competition for coffee for more information about the influence and power of large multinationals in the coffee supply chain.
- See our study on channels and segments for coffee for more information about the role of importers, roasters, agents and other stakeholders on the European coffee market.

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