What competition do you face on the European coffee market?

The European coffee market is highly competitive, especially in the mainstream segment. While most purchasing, roasting and sales are controlled by large companies and industry giants, opportunities in the speciality market are growing for smaller players. High-quality coffees, coupled with long-term relationships, offer suppliers in developing countries opportunities to articulate their competitive edge and compete on the European coffee market.

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1. Market entry

The barrier of strict buyer requirements

To enter the European market, exporters must be able to comply with strict buyer requirements set by governments and the industry. These cover issues like health, food safety, quality, traceability and sustainability. European requirements pose a serious barrier for suppliers to access the market. Nonetheless, strict compliance can also be translated into competitive advantage and improved market access.

European requirements do not always match the capacities and reality of exporters or producers in developing countries. Coffee rust (fungi) and the coffee berry borer (pest) continue to harm coffee crops in producing countries. At the same time, the control of maximum limits (such as pesticides and contaminants) is becoming more rigorous in Europe, as accredited laboratories are increasingly able to detect lower levels. Sustainability-related requirements for coffee are expected to become more harmonised in the coming years, requiring producers to comply accordingly (example: The Global Coffee Platform aims to be a platform for pre-competitive coordination on sustainability in the coffee sector).

Standards can enhance competitiveness through improving product quality, production efficiency and access to finance. Requirements in terms of implementing good agricultural practices and soil conservation, as well as improving traceability systems, have resulted in productivity gains in quality and yield and reduced exposure to pesticides, for example.

Tips:
- Refer to CBI Buyer Requirements for Coffee and to ITC Standards Map for further information on legal and non-legal market requirements, including requirements for niche markets.
Refer to the EU’s Rapid Alert System for Food and Feed (RASFF) database to see examples of withdrawals of coffee from the market and the reasons behind these withdrawals. Under ‘Product’, choose the category ‘cacao and cacao preparations, coffee and tea’.

Do not implement sustainability standards without verifying whether they are required by your (potential) buyer(s) or target market. Sustainability standards provide new opportunities to participate in trade and might lead to a competitive advantage for exporters, but they need to match market demand.

When negotiating a sales transaction, make sure that the contract minimally stipulates the buyer specifications in terms of quality, quantity and price of the goods, the shipment period, terms of payment and delivery and the period during which the offer or bid is firm (valid).

2 . Product competition
Growing opportunities for speciality coffee

The coffee market is highly competitive, especially in the mainstream segment. Approximately 70% of sales is controlled by large companies and industry giants, such as Nestlé and Jacobs Douwe Egberts. The other 30% is dominated by smaller coffee importers (green coffee traders and/or roasters).

However, opportunities in the speciality market are growing, and represent an entry point for smaller-sized companies. The increasing interest in speciality coffee is reflected by the growing number of coffee bars, small and micro roasters, small local brands and baristas in Europe.

A growing number of consumers is prepared to pay higher prices for high-quality coffees. But it is still a small and selective group of consumers; further consumer education is needed.

Tip:
- Identify smaller traders of green (speciality) coffee or even (smaller) roasters that import directly from origin. Refer to our study on Finding European Coffee Buyers for more information on such (potential) buyers.

- Explore your market access options. If you have top-quality coffee, you might be able to sell directly to roasters in smaller quantities. Direct trade will require commitment and relationship-building, as well as quality consistency.

Consumption in producing countries on the rise

A further rise in demand for coffee in developing and emerging countries, particularly in countries such as Brazil, Colombia, Ethiopia and Indonesia, and an increase in South-South trade are expected. This indicates that consumption in producing countries has increased; there is a link between an urban middle class and the amount of coffee consumption.

Tips:
- Explore opportunities in your own domestic and regional markets. Large markets such as
Mexico are expected to soon become net importers of coffee. However, accessing such markets will require you to learn about their specific characteristics and access requirements.

- Understand, monitor and be aware of the so-called ‘waves’ in the coffee market and make use of these trends, depending on your own possibilities and your target market: 1st wave (increase in coffee consumption per head, also in producing countries and guaranteed minimum quality and taste), 2nd wave (differentiation in quality and taste: increase in speciality and single origin coffee), 3rd wave (the experience of drinking coffee: flourishing baristas, distinguished ways of roasting (‘profile roasting’) and brewing), 4th wave (the science of coffee. This wave is related to the physical characteristics of the coffee, the optimisation of quality, and different ways of preparing it. This is an emerging trend and its developments and elements are not entirely clear).

3. Company competition

Pricing system obstructs the market

The price reference for coffee trade is derived from the terminal markets (mainly, New York and London Coffee Exchanges). If the influence of investment funds and other speculators on the terminal markets becomes too dominant, quotations from the terminal market do not reflect the ‘real’ price. In this case, buyers and sellers could make their own (long term) real pricing system and agreements in the future. But, in general, this is only valid for the highest coffee qualities. Although this has so far been exceptional, in ‘direct trade’ coffee producers and buyers can agree on a price without looking at terminal markets.

The coffee market is highly influenced by speculation. Currently, uncertainty surrounds the damage to the Brazilian crop, together with higher than usual price volatility (International Coffee Organization’s Monthly Coffee Report July 2016). Higher production costs, unfavourable weather conditions and climate change contribute to the ongoing profit decline in the coffee sector, especially for the growers. International efforts (by the International Coffee Organization, for example) to secure a more stable and predictable relationship between supply and demand have not (yet) counteracted ongoing price volatility.

Tips:

- Avoid competition by establishing long-term relations with the roaster of your coffee. Read our study on how to do business with buyers in the coffee sector for more information.
- Improve the unique selling points of your coffee to rise above your competition. For example, you could (if applicable) promote the high quality or single origin of your coffee beans.

The shifting power structure on the coffee market

Most coffee is cultivated by smallholder farmers, while purchasing and roasting are concentrated in the hands of a few large international players such as ECOM, Nestlé, Starbucks and Jacobs Douwe Egberts (JDE). As such, the coffee market has a traditional power imbalance between producing and consuming countries.

Coffee traders hold large inventories, which are sold gradually through numerous small orders.
These traders have the financial resources to stock many different kinds of quality coffee. Roasters rely heavily on green coffee traders. This gives the buyers great influence over the types of coffee that are sold to consumers. Large roasters can easily switch to coffee from other origins since they mainly sell blends to consumers.

At the same time, farmers and exporters face a number of constraints such as unfavourable weather conditions, climate change, weak (financial) infrastructure and organisations, pests and diseases like coffee rust. However, the market increasingly offers options for suppliers: product differentiation, certification, added value (example: improved cleaning and sorting, wet processing and others) and speciality products may improve opportunities to increase supplier power.

In addition, governments (combined with international institutions, certifiers or buyers) are taking proactive measures to extend and provide services such as the provision of seeds, fertilisers and other inputs including advice, logistics services and quality/price control. In countries such as Brazil, Vietnam and Colombia, local actors actively engage in empowering producers and are gradually contributing to bettering their capacities to compete on the international market.

Tips:

- Develop your network in your region, country and worldwide, to be aware of coffee sector developments. Try to be as well informed as your buyers.

- Check your national Ministry of Agriculture, Coffee Board and other local programmes from the Food and Agriculture Organization of the United Nations (FAO), International Finance Corporation (IFC), World Agroforestry Centre (ICRAF) and other organisations for possible programmes to support your crop.

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