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CBI Tailored market intelligence: Trends and segments for specialty Ugandan coffee

European consumers are becoming increasingly interested in both the inner workings of the coffee industry - who is producing, in what conditions, how much is paid etc. - and about the product itself, if it is single origin, the varieties, type of roast, altitude, and quality. Speciality coffee, within the mid-range to high-end segment, is progressively becoming a trend and lifestyle choice. This growing interest and knowledge about the coffee sector is creating a unique opportunity for producers and exporters in developing countries to meet the increasing demand in high quality coffees.

According to the ICO and other national associations, consumption of coffee in the EU market is growing at a rate of around 2% per annum. It is also clear that the coffee market is diversifying from a mainstream product market towards a more specialized, gourmet quality coffee market, a trend also called "premiumization". One of the most important manifestations of this general trend is the growth of out-of-home consumption in certain regional markets, which is transforming the whole coffee industry. In recent decades, thanks to the development of technology and serving methods, generic instant and blended coffees have been replaced by freshly-roasted special coffees and more and different forms of brewing or extracting.

Another important feature of the coffee market is the progressive shift - at business level - from the use of mainstream generic green coffees to more sustainable and specialty coffees.

The EU coffee market is probably one of the most singular and diverse in the world, due to the cultural differences of its member countries, which occupy a relatively small geographic area. Over the last 20 years, the characteristics and trends in coffee consumption in Europe have remained consistent, despite new variables entering the scene: the accession of new members to the EU, the introduction of "sustainability" into the mainstream coffee value chain, and the increasing acceptance of the specialty coffee concept in the markets.

Specialty Coffee Market in Europe

Specialty coffees or differentiated coffee markets started emerging in Europe under the influence of the Specialty Coffee Association of America (SCAA) from the USA during the 1990s. Today the specialty coffee sector accounts for 2-3% of the total volume of coffee traded, according to a general estimate deduced from various sources of information, mainly interviews with the trade and industry. There is difficulty in trying to determine the exact volume of specialty coffee traded or consumed as there is no specific category of classification under which specialty coffee falls. In statistical trade databases and information sources, the term specialty coffee is not clearly specified and there are widely varying definitions of what constitutes specialty coffee at national and international levels.

The SCAA defines specialty coffee as a product with attributes of quality and distinctiveness coming from a particular origin, which results in higher prices. According to the Specialty Coffee Association of Europe (SCAE), specialty coffee is defined as a crafted quality coffee-based beverage, which is judged by a consumer, in a specific marketplace, to have a unique quality, and a distinct taste and personality different from, and superior to, other common coffee beverages.

Coffee is considered specialty when it is perceived and valued by consumers for a set of unique characteristics that differentiates it from other conventional coffees, and for which they are willing to pay a premium.

From a consumer point of view, the perception of quality coffee is complex and differs according to cultures, countries and level of education. From a professional perspective, quality and unique characteristics of green coffee are related to physical and organoleptic tests, together with the uniqueness of the origin and the differentiation from others. Specialty green coffee buyers are eager to present new origins, producers and initiatives to their customers, but at the same time to convince them of their consistency. Investment in the promotion of a single origin could be very expensive and therefore is carefully evaluated. Green coffee producers and exporters may value those links with the market and will also need to make efforts to reach it.

Suppliers of specialty coffee coming from traceable or certified sustainable sources are increasingly looking for more efficient trade channels and logistics for smaller volumes. There are also interesting opportunities for new actors in the value chain of consuming markets, such as specialized importers, roasters, trainers and baristas.

Using price as the defining feature of quality specialty coffee, the largest buyers of speciality coffee in Europe are the Northern European countries. The Nordic countries consume the most expensive coffees in the world and generally they prefer Arabica over Robusta. Another characteristic is their social and environmental preferences that increase the prices they are willing to pay vis-a-vis the fierce market competition and variety available on the market. Coffee is evolving from a commodity to a gourmet beverage. Northern European consumers are increasingly concerned about social and environmental responsibility, and this is probably leading to greater interest in coffee and coffee producing regions and countries.

At the international level, the companies that are importing the most expensive coffees worldwide – independently of the volume purchased - are mostly sited in Japan and the US. More information about prices paid for specialty coffees can be found from the last auctions of the Alliance for Coffee Excellence.

The specialty coffee market in Europe has been growing steadily for the last 10 years, and has successfully weathered the storms of the recent economic and financial crises. European wholesalers, medium-sized specialty coffee roasters and new actors are participating in international auctions, paying high premiums for specialty coffees.

Trends in the Specialty Coffee market

Speciality coffee has moved from a niche to the mainstream. According to the International Trade Centre, Certified coffee beans make up more than 8% of all the green coffee exported worldwide. Specialty coffee is gaining ground in the marketplace. Conservative estimates show that more than 2% of coffee traded is already being traded as specialty coffee. Figure 1 below shows the number of speciality coffee roasters and importers in the EU markets.

There are a number of new actors in the specialty coffee sector. What is particularly relevant are the number of micro- and medium-size roasters together with new importers and traders meeting their demand. Below there is a table with the number of actors active in the specialty coffee sector.

Figure 1 : Number of Specialty coffee Roasters and Importers in the EU markets

Bags x year	Roasters Wholesalers	Importers/ Traders/ Broker/Agents
Plus 100.000	43	19
1.000- 10.000	50	10
Less 10.000	136	30

Source : SCAE, 2013

Certified coffees can be considered as specialty coffees if they meet the requirements of high and distinctive quality. Likewise, specialty coffees that meet the criteria of certification (organic, FLOCert, Utz, Rainforest, etc.) can be considered as certified. The market share captured by specialty coffee is growing along similar parameters to that of certified coffee, since both categories are considered as special coffees in exporting countries.

We will now look in more detail at trends related to the following two categories:

(1) Changing consumer trends
(2) Industry dynamics

(1) Changing consumer behaviour

Thanks to the activities of associations and organizations concerned with coffee consumption and coffee production in developing countries, there is more interest in coffee than ever before. The average European consumer is more knowledgeable about the coffee products that they consume daily, and is also aware of how their purchasing decisions can influence the coffee industry.

Figure 2: Cupping coffees in origin

Social Responsibility

Mass media campaigns, organized by groups such as Fairtrade or Rainforest Alliance, sensitize consumers to ethical consumption and make them voice their demands for more moral responsibility to be shown to coffee producers in developing countries.

As consumers develop greater awareness for social justice and the environment, they begin to demand that higher social and ecological standards are enforced in the countries of origin for the coffee they buy. Consequently consumers are demanding more coffee characterized by quality and distinctiveness.

Consumption patterns

As the coffee market evolves with important drivers such as knowledge, accountability and quality, the rational consumer will develop new ways to consume by placing emphasis on quality, freshness, ease and convenience. The last 10 years have seen unprecedented ways of consuming coffee. There has never been such an array of coffee consumption before.

Changing consumption patterns, as well as the recent development of hardware innovations and technology such as the espresso machine and a variety of consumer devices for making coffee, have shaped the consumer market for coffee. Following the launch of the first Phillips-Douwe Egberts Senseo machine in Europe, there was a wave of machines such as the plastic capsule pods in the American markets, Nespresso, Nespresso compatible capsules, “hard pads”, and Cafe Dolce. The steady preference for traditional coffee filter machines has also led to the development of new devices of varying degrees of sophistication such as Chemex, Espresso Air, French and vacuum press.

(2) Industry dynamics

Premiumization and its impact on traded volumes

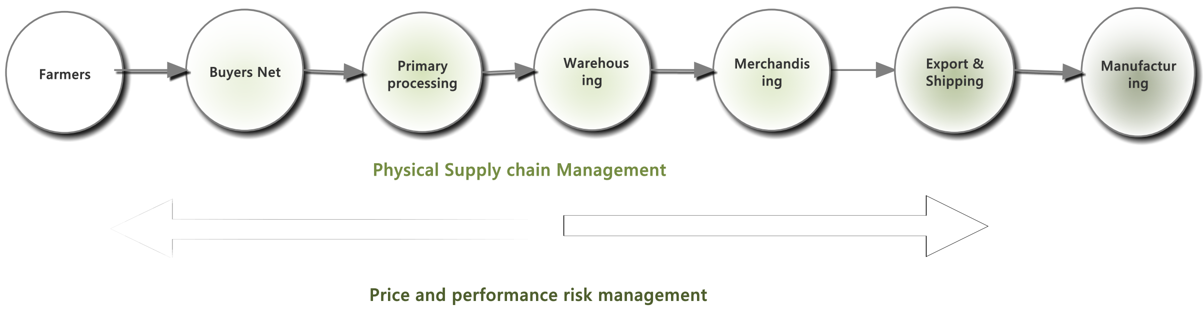
The premiumization trend can be observed across the world coffee market, helping to push the growth of coffee value sales, in some cases to the detriment of sales in volume terms. Fresh coffee beans and hard fresh-ground coffee pods in particular have contributed to this value growth, as EU consumers have been opting for good quality coffee. Fresh coffee beans have registered the strongest retail volume growth, though having started from a low level they have had little impact on the overall retail volume sales. Standard or conventional and instant coffee is losing space to fresh ground coffee.

Securing supply chains

The demand for quality, single origin, certification and traceability is obliging the trade and roasting industry to change strategies with the aim of securing their supply chains. Focused on improving farmer productivity and quality at the same time, devoted importers and large companies are investing in origin to continue promoting coffee farming as a profitable business and securing their value chains.

Investments in origin include providing training and services, financing production, giving price-risk management and raw materials to farmers, supplying directly to farmers, and developing traceable value chains for exports.

Figure 3: Supply chain management operations



Source: Based on ECOM Operation

Figure 3 shows the integration of the supply chains providing primarily processing, logistics and risk management, from farmers to manufacturers.

Out-of-Home Consumption
As large coffee chains like to penetrate the space of neighbourhood cafes, small and micro roasters take over the quality and craftsmanship of roasting and brewing coffee, and are able to effectively compete with those larger chains offering gourmet coffees.

Consumers are demanding convenience, variety and high quality both out-of-home and at-home. Single serve portions as well as pads and capsules are gaining market share.

The so-called quick service restaurants or the generic fast food restaurants are competing on the grounds of convenience and are winning ground in volume sales against gourmet coffee shops. However, gourmet coffee shops are gaining space in preference in the market of selective consumers. Large specialty coffee shop chains are stimulating the interest of consumers for those coffees and small coffee shops are providing more authentic and differentiated products.

Each country in the EU has its own particular way to understand and enjoy their favourite coffee, whether they consume an espresso or a drip-extracted coffee. It is very important for roasters to understand and meet this demand. For producers and exporters of green coffee it is important to follow those trends, ensure that social and environmental awareness play their own role in the value chain, and try to be closer to the consumer.

More Diversity
With new ways of making coffee, roasters are able to offer a greater variety of coffee suited to the changing ways of making and consuming coffee, including different origins, whole beans, quality values, different types of roast, graded roasted coffees, flavoured, decaffeinated, double or triple certifications and eco-packaged. This has led to the private labelling industry of roasted coffee going down the same path of premiumization, and also making efforts to present singular coffees to large retail chains.

Certification
Development organizations, foundations, and certification bodies have sprung up in the coffee market, insisting on the need for product traceability and social responsibility. FLO, organic certification bodies, UTZ and Rainforest battle to get large roasters to use their brands and traceability schemes to achieve customer loyalty. Consequently, consumers are becoming overwhelmed by the wide array of seals and certifications on their coffee packaging.

Professionalization of services
The birth of the *barista* (someone who prepares and serves coffee- and espresso–based coffee drinks) has changed the link between the consumer and the coffee value chain by introducing more professional and personalised services to the coffee consumer. The creation of the barista has also
led to a more competitive landscape for serving coffee as companies and brands compete to represent themselves and win over the consumer. Contests for baristas, appraisers and roasters have all led to higher consumer expectations and have helped to consolidate a specialty coffee industry of significant size.

Figure 4: Cupping tables

Professionalization and training

The newly emerging and changing trends make producers want to differentiate their products and seek excellence in product quality. Producers are now offering new varieties and products such as more professionally-packaged products in order to compete. Educational programmes and systems like the Q Coffee System of the SCAA locate specialty coffee at origin and help those producers that have potential to meet special standards. Professional cuppers (Q graders) cup and score a coffee, issuing a Q certificate if the coffee meets the required standards. According to SCAA standards, only coffees that receive a score of 80 or above are considered specialty. Coffee graders for Robusta (R Graders) and B Graders for blends are also introduced, confirming that not only Arabicas can be considered as specialty coffees but also fine Robusta and blended coffees.

To meet the demands of their members, The SCAE Coffee Diploma System was launched in 2011, allowing coffee professionals to earn credits in all aspects of coffee education, ultimately leading to the conferral of an SCAE Coffee Diploma which breaks the Coffee Education Programme into courses, from basic knowledge to barista skills.

Sourcing by Importers

Many importers are sourcing coffee from specific origins as a way to present an exclusive product to the consumer. Some coffee companies are presenting their coffee as a unique product from exotic sourcing locations. Others are marketing so-called "relationship coffee", where there is a partnership between small farmers and roasters in the long term. Others are favoring coffee produced or managed by women's organizations. The lowering concentration in trade channels and actors gives specialty coffee producers more opportunities to bring their coffee onto the market.

Segments

Quality coffee is segmented based on specific requirements as well as personal judgement and standards. A general segmentation per quality is presented in Figure 7 below.

For Ugandan coffee producers and exporters, the most interesting market segments probably are the certified and high quality coffees.

It is important to bear in mind, if you produce specialty or high-quality coffee, your final market segment: potential customers and retail outlets change from a retail chain – supermarkets - to speciality shops and high-end restaurants, hotels and coffee shops.

It is also important to note that specialty coffee is not a different industry from the rest of the coffee business, in that the premiums are determined by many factors including supply and demand.

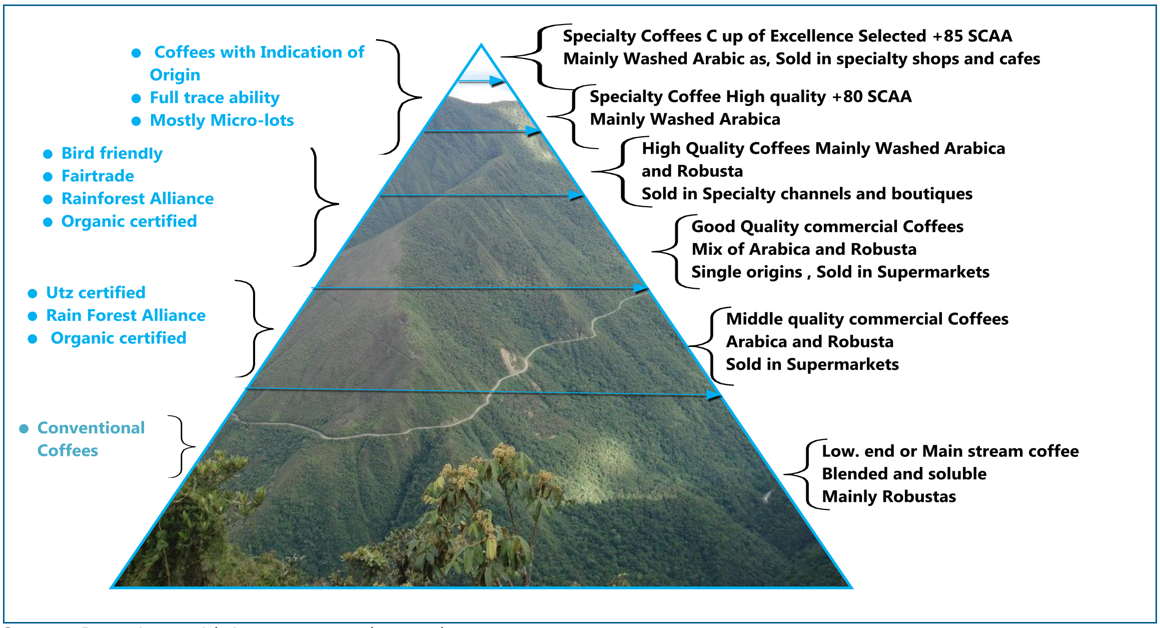
Figure 6: Single serve portions, single origins, and some Ugandan coffees

Since most of the mainstream coffees are blended, roasted and grinded, there is no visual perception of the quality of the products, except the packing and presentation. That is the only way that some low quality coffees can still reach speciality shops and retail chains.

Other important factors determining the quality and segment:

- Combination of the botanical variety,
- Topographical conditions,
- Weather conditions,
- Good agricultural practices during growing,
- Pre-harvesting and harvesting,
- Method used (wheat or dry),
- Drying beans and storage,
- Export preparation and transport.

Figure 7: Segmentation according to quality



Source: Interviews with importers, traders and exporters

Useful sources

Below you can find useful resources for information about the coffee and specialty coffee sector:

Coffee trade press

- Coffee & Cocoa International
- Tea and Coffee Trade Journal
- The Specialty Coffee Chronicle
- Cafe Europa
- Coffee and Tea International
- Coffee Trend
- Fresh Cup
- Global Coffee Review
- Roast Magazine
- Cafe Culture

Coffee associations

Coffee associations can also be a source of information and reference for Specialty Coffee exporters. They can provide information on the EU market and provide additional information on the market for specialty coffee.

- International Coffee Organization (ICO) –International
- Alliance for Coffee Excellence – International
- African Fine Coffee Association (AFCA) - Africa
- Specialty Coffee Association of Europe (SCAE) - Europe
- Specialty Coffee Association of America (SCAA) America
- Specialty Coffee Association of Japan (SCAJ) – Japan

- Specialty Coffee Association of China (SCAC) – China
- Specialty Coffee Association of Korea (SCAK) - Korea
- Australasian Specialty Coffee Association (AASCA) – Australasia
- Specialty Coffee Association of Indonesia (SCA-INDO) - Indonesia
- Brazil Specialty Coffee Association (BSCA) - Brazil
- Specialty Coffee Association of South Africa (SCASA) - South Africa
- European Coffee Federation (ECF) – Europe
- German Coffee Association - Germany
- Trieste Coffee Association - Italy
- Belgian Coffee Association - Belgium
- Spanish Coffee Federation - Spain
- British Coffee Association - UK
- Dutch Coffee and Tea Association - The Netherlands

Recommendations

Being updated and informed about the trends and development of the specialty coffee sector gives producers and exporters an advantage over other players in the market, as well as a better understanding of their potential for improvement to meet the preferences of the consumers in their markets. It is important for producers and exporters of specialty or high-quality coffee to pay particular attention to the trends and developments in the consumer and final market segment: home consumption preferences, speciality shops and high-end restaurants, hotels and coffee shops. Furthermore the different ways in which coffee is prepared and consumed - drip brewing, espresso, capsules – as well as technological innovations are key elements to understand the trends in consumer preferences.

For further insight into trends and segments, please refer to the Trend mapping study which provides an overview of the key trends of the EU market for Coffee (tea and cocoa): CBI Trendmapping for Coffee, Tea and Cocoa.

This survey was compiled for CBI by Rafael Valcarce P., CBI sector expert