European market potential for speciality coffee

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The sharp growth of the European market for speciality coffees has been partly driven by continuous growth of out-of-home consumption. Coffee shops in European cities lead the way in introducing sophisticated, high-value varieties to consumers. The growing demand for speciality coffee follows the growing consumer interest in how coffee is brewed, as well as where, how and by whom the coffee was grown. It has therefore become essential for speciality coffee producers to tell the story behind their coffee, its origin and the other environmental and social aspects around it.

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1. Product description

The global coffee trade recognises two main markets for coffee beans: the commodity market and the speciality market.

The commodity market mainly offers bulk coffee produced in high volumes and of standard quality. The commodity market is highly price-oriented, following the international C-market price. Certification is increasingly being used in this market as an entry requirement, due to stricter sustainability protocols of European roasters and retailers. The leading certification schemes in the mainstream market are 4C, Rainforest Alliance/UTZ, Starbucks' C.A.F.E. Practices and Nestlé's AAA Sustainable Quality Program.

The speciality market is still a niche market. In comparison with the commodity market, it offers higher prices for coffee exporters handling lower volumes of higher-quality coffee beans. Speciality coffee most often refers to Arabica, which has a smoother, more aromatic and more flavourful taste than Robusta. Most speciality coffees are Arabica cultivars, of which Typica and Bourbon are the most widely known. Although recent industry efforts aim to create a common language of quality for Robusta, in part to deliver speciality Robusta quality, high-quality Robusta is not yet widely available.

To this day, there is not an exact and agreed definition of speciality coffee. According to the Specialty Coffee Association (SCA), coffees with cupping scores of 80 and above are considered speciality coffee. Associations in a few countries, such as the Asociación Cafés Finos Costa Rica, also have their own definition of speciality coffee, which usually also refers to the physical quality of the coffee bean, while cupping scores are used as a parameter for speciality coffees.

In general, several aspects stand out:

- High quality: Some consider speciality coffees to be those with a cupping score of 80 and above, but for others a speciality coffee means a cupping score of 85 or higher. How high the bar is set really depends on

the buyer. There are different protocols you can use to grade coffee, such as the one developed by the Specialty Coffee Association.
- Sustainable coffee value chain: Direct trade, close contact between farmers and buyers, traceability systems and the payment of price premiums based on the quality of coffee beans are elements directly connected to speciality coffee. Notably speciality coffees from micro and nano lots allow for more direct trade between producers and small buyers, such as specialised traders and small-scale roasters. Some industry players advocate that speciality coffee also has to be differentiated with at least some certification, although others find that counterproductive due to the extra costs for farmers. The main exception to this is organic certification, for which there is a growing niche market within the speciality segment.

Unique origins or terroirs are very important in the speciality segment, creating different product types, including:

- Single origin: Origins have been receiving increasing attention from industry and consumers for some time now. Single origin is associated with high quality and uniqueness from a certain region or country. Examples of single-origin coffees include Jamaican Blue Mountain, Hawaii Kona, Kenya AA and Guatemala Antigua.
- Single farm or estate: Coffee sourced from a particular farm is called single farm or single estate. These coffees tend to have detailed information on how and by whom the coffee was harvested and processed and the history of the farm. Examples include Tanzanian Kifaru Coffee and Panamanian Hacienda La Esmeralda.
- Micro lots and nano lots: The speciality coffee market has led to an increase in micro and nano lots. These lots consist of extremely high-quality coffee beans, which are sold for a much higher price than other coffees. Micro lots usually consist of around 10–75 bags. Nano lots are even smaller, consisting of fewer than five bags of coffee, representing an even more exclusive quality. As volumes are low and the costs for preparing these lots and their associated logistics are high, micro and nano lots do not usually represent the core business of a coffee producer, but may primarily boost the producer’s reputation for having the skills to produce interesting varieties of processed coffee.

Harmonised System (HS) codes are used to classify products and to calculate international trade statistics, such as imports and exports. The focus in this study is on green coffee beans under HS codes 090111 (coffee, not roasted, not decaffeinated) and 090112 (coffee, not roasted, decaffeinated). The available data does not distinguish between conventional and speciality coffees.

2. What makes Europe an interesting market for speciality coffee?

The increasing interest in high-quality coffee, in combination with a growing demand for ethical and sustainably produced coffee, has made speciality coffee the fastest growing segment in the European coffee market. The continent is home to an ever-growing number of coffee-focused outlets and micro roasteries. An increasing number of consumers appreciate and prefer the fine organoleptic qualities of mild roasted coffee, while getting to know the story behind it, and are willing to pay more for that.

European consumers interest in speciality coffee is growing

Consumption of speciality coffees is growing at a fast pace in Europe. The European market for speciality coffee offers opportunities for suppliers offering high-quality coffees. This speciality segment is a small niche, which commands high quality and high value. Some coffee shops, after becoming large enough, start to source their green beans directly from origin, sometimes still leaning on their former supplier, usually an importer, for financial support, quality control and logistics.

The increasing interest in speciality coffee is reflected in the growing number of coffee bars and chains, small roasters, small local brands and baristas. The European branded coffee shop market grew by 3.4% in 2019, reaching a total of nearly 38 thousand outlets. In 2019, the leading branded coffee shops in Europe were Costa Coffee, Starbucks and McCafé, with market shares of 8.4%, 7.4% and 6.8% respectively. While these large-scale companies do not always offer speciality coffee products, they set a consumer trend towards coffee shop and other out-of-home purchases. This consumer trend spills over to smaller and more specialised coffee shops offering high-quality/speciality coffees.

Prior to the COVID-19 crisis, it was estimated that the European coffee shop market would continue to grow at an average annual rate of 3.9% from 2020 to 2025. The coffee shop market has been hit hard by the effects of COVID-19. Lockdowns and social distancing measures have caused a sharp reduction in out-of-home consumption, which has particularly affected coffee shops and (micro) roasters that supply the food service segment. Yet, given that the consumer interest for high-quality coffees is long term, a rebound of this segment is expected.

The growing number of speciality coffee outlets shows that a growing number of European consumers are prepared to pay more for high-quality coffees. Specific Europe-wide data on speciality coffee consumption are not available, partly because there is no industry consensus on a clear-cut definition of speciality coffee. Consequently, there is also no specific European import data for out-of-home speciality coffee consumption available.

Sustainable and ethical trade gain ground in the European market

Sustainability is increasingly important in the European coffee market, both for consumers and industry players. This creates interesting opportunities for speciality coffee, as this niche market has many characteristics of sustainable coffee value chains. Direct trade, close contact between farmers and buyers, traceability systems and price premiums based on coffee bean quality are all elements directly connected to speciality coffee.

Keep in mind that due to these characteristics, many importers and small roasters working with speciality coffee consider certifications counterproductive. These buyers monitor good agricultural practices and social responsibility through the direct relationships they maintain with producers. In the view of these importers and roasters, certifications impose unnecessary costs on farmers.

Note, however, that certification is still regularly required by some speciality buyers and retailers, since it is still seen as an important proof of commitment to sustainability. This is especially so in relation to organic and fair trade certifications.

Effects of COVID-19 on the European speciality coffee sector

As a consequence of the COVID-19 pandemic, European governments have put measures like social distancing and lockdowns in place. These have had a huge effect on cafés, micro-roasters, restaurants and other out-of-home outlets. For instance, in Germany, coffee consumption in coffee shops and restaurants decreased by around 76% during March and April 2020, while an estimated 92% of coffee shops in the United Kingdom had to temporarily close in the same months. It is these outlets that have driven coffee consumption in recent years – notably in the speciality segment.

These circumstances have accelerated the trend towards online shopping for at-home consumption. Roasters have started to sell online through their own web shops or through platforms such as Shipsbeans. In general, micro roasters and independent coffee shops tend to show a high level of innovation, marketing power and consumer loyalty to fight the crisis. As such, although small independent businesses have been hit hard, it is expected that most of them will survive the crisis.

At the time of writing it is difficult to give growth perspectives for the different markets. Nevertheless, in general, the interest for high-quality coffees throughout the different European markets is expected to be long term, thus outliving the crisis. Hence, demand for speciality coffees will most likely increase again after the strict COVID-19-related measures are lifted. Nevertheless, the speciality coffee demand in 2020 will definitely be lower than usual across all of Europe, due to continuous social distancing measures and health concerns of consumers, which will result in a decline of out-of-home consumption.

Tips:

- If you use Chrome as a web browser, read here how you can translate this study into another language.

Read this blog by the Specialty Coffee Association to learn more about the speciality coffee market in Europe.

See the website of the Specialty Coffee Association to find news, events and resources related to speciality coffee in Europe and North America.

Read our study on sustainable coffee for more information about sustainability in the European coffee market.

See our coffee trade statistics study for more detailed information about the European trade in green coffee beans.

Look up the websites World Coffee Research, Global Coffee Platform and Sustainable Coffee Challenge to learn more about sustainability initiatives and research.

3. Which European countries offer most opportunities for speciality coffee?

All European markets have been showing growing demand for speciality coffee, although the size of the segment is most pronounced in North Western Europe. This area is marked by higher income levels and consumer awareness, as well as a more developed coffee culture than the rest of Europe. Interest in other cultures, from increased travelling or otherwise, raises consumer interest in the origins of coffee. Social responsibility and political concerns connect consumers with the well-being of producers, while increased interest in environmental themes, from recycling to global warming, stimulate consumer interest in environmentally friendly and sustainable coffee cultivation.

The sections below give a general outlook about promising speciality coffee markets in Europe. In general, the markets are not expected to grow during 2020, due to the impact of COVID-19. Nevertheless, given that consumer interest in high-quality coffees is considered a long-term trend, the markets are expected to pick up in growth after the relative normalisation of the coffee shop market in Europe.

For more up-to-date information about the coffee market in relation to the COVID-19 crisis, refer to this article with informative sources. In addition, refer to the official coffee associations of your target market to find updates concerning that particular market. Examples include the British Coffee Association, the German Coffee Association or the Norwegian Coffee Association. In addition, check the national websites of the Specialty Coffee Association of your target market. Also, check our article on how to respond to COVID-19 for more practical tips on how to successfully deal with the crisis and its consequences.

Speciality coffee market finds strong base in Scandinavia

Scandinavian countries rank among the highest per capita coffee consumers in the world. High-quality coffees are the main focus in the Scandinavian market. Countries such as Sweden, Denmark and Norway are seen as important players in the speciality coffee market internationally. Norway was the founding country of the Specialty Coffee Association in Europe.

The market for speciality coffee in Scandinavia showed continuous growth for years. This is partly reflected in the strong growth in out-of-home consumption, showing that consumers in Denmark, Sweden and Norway are increasingly looking for unique, high-quality coffee in coffee shops. Within Europe, Denmark, Sweden and Norway have registered the highest growth rates in coffee shop retail sales since 2010.

As a result, the number of coffee chains and micro roasteries also keeps growing in Scandinavia. In Sweden, about 10 new small roasteries open every year. In Europe, Denmark even registered the highest growth rate of new coffee shops in 2018, with an annual outlet growth of 14.5%.

The largest chain operating in Scandinavia is Espresso House, with approximately 350 shops in Sweden, Norway and Denmark. Other large chains are Joe & The Juice (Denmark) and Wayne's Coffee (Sweden). Examples of specialised coffee shops in Scandinavia include Kafferäven and Drop Coffee Roasters (Sweden), Coffee Collective and Sonny (Denmark), and Lippe and Fuglen (Norway). These roasters cater to niche markets and follow the principles of direct trade, transparency and high-quality products.

French speciality coffee market taking off

France is also an important market for speciality coffees, although it took long for it to take off. In 2019, the estimated market share of speciality coffees in France reached 2% to 3% of its total coffee market, and is growing quickly. The share of speciality coffee in France is expected to rise to about 10% of the total French coffee market by 2025.

The specialised coffee shop market has grown significantly in France, mainly in larger cities such as Paris. Examples of speciality coffee shops in France are Honor and Matamata Coffee. Other coffee chain actors with a strong focus on speciality coffee include the brand Alter Eco, which imports fair trade and responsible coffee, and trader BELCO, which focus on high-quality coffees. As in other countries with a dynamic speciality sector, there is an increased interest in France in the uniqueness of coffees in terms of quality and origin. For a coffee exporter, this underlines the importance of highlighting these aspects of your coffees.

The UK speciality coffee market is growing at full speed

British consumers traditionally drink more instant coffee than those in other European countries, but the sales of speciality coffees are growing rapidly in the UK. This growth is highly influenced by out-of-home consumption. The expansion of speciality coffee chains, such as Grind, GAIL's and Joe & The Juice, and the involvement of established chains, such as Starbucks, Costa Coffee and Caffè Nero, in speciality coffees are shaping this market.

The United Kingdom is the largest coffee shop market in Europe today, having grown continuously in the past twenty years. In 2019, the United Kingdom counted a total of 25,892 coffee shops, of which 1,400 were categorised as speciality coffee shops. Examples of these shops include Small Batch Coffee Roasters, Union Brew Lab, Caravan Coffee Roasters, Wood Street Coffee and Redemption Roasters. The largest coffee chain in the United Kingdom is Costa Coffee. The country also hosts a series of specialised coffee events, including Manchester Coffee Festival, Edinburgh Coffee Festival and London Coffee Festival.

Besides the growing interest in high-quality coffees, there is also a strong interest in sustainable coffees in the United Kingdom. In fact, the United Kingdom presents a very established market for certified coffees. Fairtrade and Rainforest Alliance find their largest markets in the United Kingdom.

Germany's gigantic coffee market opens up for speciality coffee

The domestic market for speciality coffee is growing in Germany. Out-of-home consumption has been growing steadily for the past years, registering a 5% growth rate over 2018. In 2018, about 12% of Germany's total annual coffee consumption was consumed out-of-home. This segment is expected to continue, as approximately 50% of German coffee drinkers say they are willing to spend more money for better quality coffee.

Germany is the second-largest coffee shop market in Europe, only after the United Kingdom. The upward trend of out-of-home consumption in Germany brings opportunities for exporters of high-quality coffees, with German coffee shops leading the way in introducing high qualities to consumers. The speciality coffee market in Germany is also marked by the expansion of small-scale roasters, such as Berlin's Supremo (Unterhaching), The Barn, Five Elephant and Flying Roasters.

In addition to the growing consumer interest in speciality coffee in Germany, the country's coffee sector also has a number of specialised importers. They buy small volumes of high-quality, single-origin or fair trade coffee. Examples of small and large specialised importers in Germany include Rehm & Co (high-quality coffees), Touton Specialties Coffee (high-quality coffees), GEPA (fair trade), Rapunzel (organic and fair trade), El Puente (fair trade) and Slokoffie (organic sustainable coffee).

Eastern European market for speciality coffee is small but has potential

The Eastern European market for speciality coffee is a lot smaller than in North Western markets, but it shows interesting potential. The largest and fastest growing Eastern European markets for speciality coffee are Czech Republic, Hungary, Poland and Romania.

In Poland, the number of speciality coffee shops is on the rise. In Romania, the number of speciality coffee shops went up from only three to more than 90 coffee shops between 2013 and 2019. The number of coffee shops in Hungary has also grown exponentially in the last few years, reaching approximately 150 speciality coffee shops in 2019.

Examples of specialised independent coffee shops in Eastern Europe include: Rebel Bean, Plato Café and Misto Café (Czech Republic), Two Minutes and The Urbanist (Romania), Black Sheep and The Goat Herder (Hungary), and Java Coffee Roasters and Hayb Coffee (Poland).

Coffee chains are also growing fast in Eastern Europe. Romania had the fastest outlet growth in all of Europe in 2019: 28%. McCafé, Starbucks, Caffè Nero and Costa Coffee are examples of large chains in Eastern Europe. The growing number of coffee shops and micro roasters in Eastern Europe illustrates the consumer interest in incorporating quality and variety in their coffee.

As the speciality niche market begins to flourish in the region, different actors in Eastern European countries have been joining the Specialty Coffee Association (SCA). Bulgaria, Czechia, Hungary, Lithuania, Poland, Slovakia and Romania have their own national SCA chapters. Czechia is also home to the Coffee Embassy, in Prague, whose mission it is to educate and promote coffee culture in the country.

The large number of coffee festivals organised in Eastern Europe also help to illustrate the growing interest in speciality coffee in this region. Examples of events in Eastern Europe include the Prague Coffee Festival (Czechia), Warsaw Coffee Festival (Poland), Bucharest Coffee Festival (Romania), Sofia Coffee Festival (Bulgaria) and Tallinn Coffee Festival (Estonia).

Tips:

- Check the European Coffee Trip website to find examples of specialised coffee shops and small-scale roasters active in the speciality niche market in Europe.
- See our country studies to read more about the speciality markets and coffee opportunities in Eastern Europe, France, Germany, Scandinavia and the United Kingdom.
- Follow the news on the Allegra World Coffee Portal to stay up to date on the developments in the European coffee chain market.
- Refer to the national coffee association of your target market to be informed about recent developments in that market, which include the British Coffee Association, the German Coffee Association or the Norwegian Coffee Association.
- Investigate whether you qualify for industry awards, such as the Cup of Excellence programme. This can be an interesting way to profile yourself and your coffee origin in the European market for high-quality coffee. The Cup of Excellence is an annual competition among the highest quality coffees, which takes place in several countries.

4. Which trends offer opportunities in the European speciality coffee market?

Speciality coffee is gaining ground in the European market. An important trend in this segment is the introduction of speciality coffee capsules in the single-serve market, which is a growing segment on its own. Buyers are also slowly developing interest in Fine Robusta. Besides the growing variety of actors active in the speciality coffee market, mainstream players are also increasingly involved in this sector.

Mainstream coffee actors increasingly engage in speciality market

Large European trading companies are expanding their speciality coffee portfolio. InterAmerican Coffee (owned by Neumann Kaffee Gruppe), for example, was one of the first to set up a division dedicated to sourcing speciality coffees. Other, more recent examples include: Olam Specialty Coffee, Volcafé Specialty, Rehm & Co (owned by Benecke Coffee) and Sucafina Specialty (known as 32Cup before being acquired by Sucafina).

Mainstream companies have also been acquiring small specialised roasters, as way to enter the speciality market. This the case, for example, of the acquisition of speciality roaster Blue Bottle by Nestlé in late 2017, and the acquisitions of Stumptown Coffee Roasters and Intelligentsia by JAB Holdings.

As a result, mainstream companies increasingly adopt terms common to the speciality market, such as single origin and premium quality, trying to appeal to consumers looking for signs of quality. On the production side, producers increasingly work under the umbrella of large-scale companies, having to comply with volume, quality, traceability, certification and other requirements established by these buyers.

Although mainstream coffee actors are increasingly engaging in the speciality market, there is also a large number of specialised independent trading companies in Europe that are focused on importing speciality coffees. Examples include The Coffee Quest (the Netherlands), This Side Up (the Netherlands), Belco (France), Falcon Coffees (United Kingdom) and Nordic Approach (Norway).

Speciality coffee in single-serve methods grows

Single-serve coffee methods are growing in popularity in the European market. The ease of use of these products, their strong marketing and the variety of flavours available have contributed to their popularity. One important trend within the single-serve market is the introduction of speciality coffee capsules. Examples of companies working in the single-serve speciality segment are the British Difference Coffee, Halo, Hayman and Colonna and Belgium's Caffènation. Large brands in the European mainstream single-serve market include L'OR, Lavazza and Nespresso.

The use of speciality coffee in capsules brings interesting opportunities in the process of popularising speciality coffees of different origins and flavours. Nespresso has joined this trend by launching the Reviving Origins programme, aimed at bringing back lost coffee origins. However, bear in mind that this is still a very small niche within the single-serve market.

The negative environmental impact of coffee capsules is a growing problem in this market. The industry has come up with recyclable and compostable solutions and alternatives, such as Gea and the biodegradable capsules from Dutch roaster Peeze, which are compatible with Nespresso machines.

Growing interest in high-quality Robusta coffees

Speciality coffee most often refers to Arabica beans. Nevertheless, the interest in high-quality Robusta varieties is growing in the speciality coffee market. Sector-wide efforts are under way to improve production and reach Fine Robusta quality. In Ghana, for example, the government and coffee brands have started exploring production methods to produce Fine Robusta.

Some coffee shops and roasters already focus on Robusta coffees. For instance, the Swiss micro-roaster Röstlabor offers single-origin Robustas from countries like Mexico and Thailand, alongside speciality Arabicas. Another example is Black Sheep Coffee in the United Kingdom, which serves single-estate speciality grade Robusta sourced from the world's first speciality grade Robusta farm: Kaapi Royale Coffee, from the Sethuraman Estate in India. Another example of a Fine Robusta producer that is already exporting is Guinea's Macenta Beans.

The growing interest in Robusta coffees and the currently limited supply of high-quality Robustas offer interesting opportunities to exporters able to provide constant supplies meeting the Q Fine Robusta Standards and Protocols. You can also consider becoming an R-grader or Q Robusta grader or growing organic Robusta, for which demand is growing.

Organic certified speciality coffee a growing niche within speciality segment

Certification is not a must within the speciality coffee market, although some buyers may require it. Small coffee roasters in the speciality segment are generally more interested in building trust with suppliers — and increasingly so in direct trade — and not much interested in third-party certification. Organic certification, however, stands out as an exception. Examples of companies exporting organic coffees to the European market are Ibrahim Hussien (Ethiopia), Cenfrocafe (Peru), RainForest Trading (Peru), Mayorga Organics (Honduras), Café Orgánico Marcala (Honduras), Kawa Kabuya (DRC Congo) and Rwashoscco (Rwanda).

Demand for organic food products in Europe is on the rise. European organic retail sales reached almost €41 billion in 2018, which is about 42% of global organic sales. Between 2014 and 2018, European organic retail sales registered an average annual increase of 12%. Denmark, Sweden and Switzerland had the highest shares of organic sales in their total markets among European countries, and among the highest per capita consumption of organic food in the world. The largest European markets for organic food in 2018 were Germany, France and Italy with retail sales of €11 billion, €9.1 billion and €3.5 billion, respectively.

Within the European coffee market, organic is still a niche market. In 2019, the European Union imported an estimated 130 thousand tonnes of organic coffee (4.3% of total coffee imports). Between 2018 and 2019, organic coffee imports by the European Union increased by almost 12%. It is expected that Europe will consolidate its position as a prominent market for organic coffee. This expectation is backed by the combination of the expected year-to-year growth of the global organic coffee market by 13% until 2024, the enormous size of the European coffee market and the growing European markets for organic produce.

Tips:

- See our coffee trends study to learn more about current trends in the European coffee market.
- To learn more about the organic coffee potential on the European market, refer to our fact sheet on exporting organic coffee to Europe.
- Promote the sustainable and ethical aspects of your production process, and support these claims with certification. See our study on doing business with European coffee buyers for more tips on marketing and promoting your coffee.
- Before engaging in a certification programme, make sure to check that the label has sufficient demand in your target market and whether it will be costbeneficial for your product, always in consultation with your potential buyer.
- Investigate about new varieties that can be propagated in your farm or cooperative, as well as different ways of processing coffee. This may increase income, but more importantly, it will increase your reputation as a speciality coffee producer. If buyers are interested in your micro and nano lots, they will usually also purchase your other mainstream coffee to fill a container.
- Learn more about coffee cupping and cupping scores on the website of the Specialty Coffee

Association. Consider obtaining a Qgrader certificate to be able to cup and score your Arabica coffee according to international standards of aroma and taste. If relevant, explore opportunities to become an Rgrader or Q Robusta grader as well.

Investigate opportunities in highquality micro and nano lots. Read this article on how to limit risk and improve quality of your micro lots.

Refer to the Cup of Excellence platform to connect with other speciality coffee industry players and potential buyers.

ProFound – Advisers In Development carried out this study on behalf of CBI.