

# How to respond to COVID-19 in the coffee sector

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The global outbreak of the COVID-19 virus is having a major impact on international trade. This study presents a quick overview of what is happening in the coffee market and the supply chain. It offers practical steps for small- and medium-sized enterprises (SMEs), like farmer groups and exporters in coffee-producing countries, to deal with the immediate effects of COVID-19 on the sector. It also provides steps to take to prepare for successfully doing business in the sector after the crisis is over.

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## Effect on the market

The coronavirus crisis has caused sales volumes to decrease by 50% in Europe and an estimated 25% in the United States. Roasters are ordering less coffee from importers, and warehouses are pretty full. Many coffee bars and roasters in Europe are using government subsidies to pay their employees' salaries. This increases the chances that they will stay in business and continue to order from importers. Importers will then continue to buy from speciality coffee producers like you.

Still, lockdown and social distancing measures have caused a reduction in consumption. This particularly affects small coffee roasters and roasters that mainly supply Hotels, Restaurants and Cafés (HORECA): this sector reports an 80% reduction. The micro-lot segment is the most affected. Producers and exporters have been asked for discounts of up to \$0.40/lb for some very expensive types of coffee. However, roasters that sell online or through retail channels are reporting growth.

When the worst of the coronavirus crisis is over, for example, in one year, with businesses operating and possibly still with some form of social distancing, the small coffee businesses will recover. However, they will only recover as much as restaurants and coffee bars can return to receiving their original number of customers. Virologists agree that even with a vaccine against the current COVID-19 virus, there is still the threat of new viruses or mutated forms of the current one.

Small independent businesses will suffer in particular, as they need to pay their high street rents with a reduced income due to the social distancing measures. Yet, the sector believes most will survive. Smaller roasters and coffee bars tend to be faster to adapt to changes. Some have already started selling online, which has helped. [Shipsbeans](#) is an example of a platform for speciality coffee businesses. Larger places like Starbucks and Costa will suffer less because they own bigger premises, where some of them can offer [drive-through service](#).

## Effect on the supply chain

At the time of writing this report, May 2020, coffee supply chain operations have been affected worldwide. In Honduras, El Salvador and Peru, citizens are under a heavy lockdown from their governments. This limits available labour. In Guatemala, containers are not available. In Colombia, the lockdown is affecting the coffee flow, and there is a shortage of pickers. Besides the scarcity of available containers, forwarders are sailing less frequently or excluding some ports due to reduced demand for goods; this is called blank sailing.

Flights are more heavily affected. For example, there are big capacity problems to and from Amsterdam, Latam, Oceania and the Far East. Export to China is at a normal level, as well as import from Africa. There is some concern among importers about there possibly being fewer port workers. That might affect timely shipping. Courier services are suffering more noticeably, with documents and samples arriving later than normal.

Still, the majority of bottlenecks are further down the chain: a lot of coffee that is scheduled to ship is no longer wanted by roasters. This situation is causing working capital to become scarcer both at importers and producers, as unsold coffee is not bringing in money. Warehouses in Europe are filling up, and late shipping from producer countries will only fill up coffee storage even more.

Communication is regarded as normal. Importers rely more on local teams in countries where communication is poor, such as Ethiopia. Conference calls are working well as a substitute for personal visits. Importers are happy about the open and direct communication with their suppliers about the COVID-19 situation in their countries.

When it comes to exchange prices for producers, there are concerns about disruptions to the supply chain, making coffee more valuable. Still, there is uncertainty about the future of demand, making coffee less valuable. Since the sharp fall around the new year, we saw an increase in price for both Arabica and Brazilian naturals until mid-April. Robustas, however, continued to fall. In March 2020, global exports fell by 3.7% to 11 million bags. Shipments in the first six months of the coffee year 2019/2020 decreased by 3.9% to 62 million bags.

However, coronavirus issues, such as closed processing plants, port disruptions, or reduced availability of harvesting labour, are probably not the main cause of this decrease. These issues are happening, though. A more likely cause is the fact that farmers are discouraged due to long-term low prices, droughts and irregular climate conditions. The low prices cause many farmers to sell below the cost of production. Farmers are thus leaving the coffee industry.

In the coffee year 2019/2020, [the International Coffee Organisation \(ICO\) revised its estimate of global coffee consumption to 166 million bags](#). This still represents an increase of 0.5% compared to 165.27 million bags in 2018/2019. As a result, production is expected to exceed consumption by about 2 million bags. This will probably lead to continued low world-market prices.

Prices for mild Arabica increased in April 2020. But the HORECA segment in Europe expects less demand for the short- and medium-term of at least one year due to some continued social distancing measures. Producers of speciality coffee will risk warehousing this coffee and having to discount it sooner, to accommodate other types of contracts, or later when it has become old.

Still, according to a study by Allegra in the United Kingdom, [the long-term future for coffee shops remains bright](#). Consumer demand for quality coffee and café experiences shows no signs of disappearing. "Digital technology will play a deepening role in the coming decade as coffee shops devise new, innovative ways to serve customers and forge lasting human connectivity."

The following 6 steps focus on immediate actions that your coffee company can take in the short-term to ensure survival in the present situation.

## 1. Keep your farmers and workers healthy

Health experts agree that the best way to avoid getting infected is by social distancing and maintaining proper hygiene. Implementing this in your coffee business will reduce the risk of your farmers, workers, trainers and office staff getting sick. This would affect not only their health but also your company's productivity and ability to meet your buyers' expectations and legal obligations.

Some buyers are reserving funds to address the immediate needs of farmers. For example, [Starbucks has set up a Global Partner Emergency Relief Program](#) for its partners. Other buyers are creating funds for immediate needs in their own region, such as [Lavazza's emergency fund for Piedmont](#), Italy, or supporting international efforts, such as [Nestlé's support for the Red Cross](#).

### Tips:

- Implement social distancing protocols, especially where crowding may occur. For example, during the delivery of cherries by farmers or group work, such as washing, drying, selection, bagging and warehousing.
- Buy soap, masks and disinfectants, and support access to clean drinking water. Also, provide information and tips on hygiene.
- Think of ways to support farmers with home education if schools are closed.
- See if your clients have digital applications to help monitor the spread. For example, [Cargill is using its digital farming tool to reach farmers and communities and raise local awareness on COVID-19](#). This app is normally used for farm mapping, cooperative management systems and traceability. Also, check with your buyers if they have reserved funds to address the immediate needs of farmers.
- If you are Fairtrade certified, contact the Fairtrade Labelling Organisation (FLO) to see if you qualify for funding from their [Fairtrade Producer Relief Fund](#) for the immediate needs of farmers, workers and their communities.

## 2. Manage your risk on receivables and inventory

Make sure that your clients will pay 100% of your coffee. Speciality importers and traders have been hugely affected., This may mean that they cannot comply with their payment obligations. Regarding inventory, a cooperative may feel the moral obligation to buy all the coffee from its members. But if few contracts come in, due to slower rotation in Europe of particularly speciality coffee, you may be stuck with unsold inventory. This will affect your cash position, and the coffee may become old.

### Tips:

- Get banks involved as much as possible for trade finance, so you will receive at least 50% of the contract in advance.
- Limit 100% Cash Against Documents (CAD) contracts. Shipping coffee based on only informal payment-promises is a large risk at this time.
- Conclude contracts pro-actively to protect your market share with current clients.
- Do not source too much without sufficient contracts.
- Keep regular contact with your clients and manage your exposure.

### 3. Offer various preparations and finalise certifications

If your speciality coffee contracts are in danger of being cancelled, look into offering commercial quality. The successful roasters at the moment are those that sell retail quality coffee, which generally ranges in cupping score from 78 to 82.

Certification will reduce the risk of contracts being cancelled. With certification, it is much easier to quickly sell the coffee to other clients.

#### Tips:

- Understand what the client needs, ask questions, and adjust your processing to that.
- Pro-actively offer various preparations. Offer your clients not only Specialty Grade or Premium Grade, but add Exchange Coffee Grade/Usual Good Quality or even Below Standard Grade. For more information, see the [SCAA method of coffee grading](#).
- If you are in the process of certification, try to finalise it. Look for certification agencies that operate in your country, so there are fewer international travel

### 4. Make sure you have sufficient working capital

Buyers may be slower in making payments, shipping, or even sending you the contract for the coffee you have bought from farmers. Also, their own inventory is growing as roasters' demand is down, which puts pressure on their working capital. Making sure you have sufficient credit lines in place will thus be important. Working capital will become increasingly scarcer if there is a continued recession in Europe/the world, so the sooner you act, the better.

#### Tips:

- Contact local banks to secure existing or new lines of credit.
- Contact international social lenders to provide trade finance. Social lenders, such as Alterfin, Root Capital and Shared Interest, will be able to do pre-selections now, and if you qualify, they will conduct due diligence on-site as soon as airports open. You should also find out if there are social lenders in your country that can visit you already.
- Make sure you meet the requirements for social lenders. Get your financial statements audited and update your Corporate Social Responsibility (CSR), business and export marketing plans.

### 5. Increase your quality control

Given the slowdown of shipments, a lot of coffee will be warehoused for longer than normal in producing countries. After shipping, a lot of coffee will need to be warehoused for longer than normal in destination countries as well. As coffee tends to deteriorate in quality over time, it will lose value very rapidly. This is bad for your economic situation and that of your client. Make sure your coffee still cups highly after longer periods of warehousing. This will help you keep your good reputation.

#### Tips:

- Dry your parchment properly by reducing the thickness of layers of beans on your drying beds and giving it enough time. Lack of this is the main reason for coffee losing its flavour quickly. Invest in more drying beds if needed.

- Make sure your warehouse is well-ventilated and has proper pest control.
- Make sure that transit is arranged properly. If the contract is Free On Truck (FOT), make an effort to ensure that the truck reaches the container quickly and that the container sails swiftly as well, even if it is not your direct responsibility.
- Start now with organic composting or training to do this. Farmers can do this independently. Contact experts in your country and have them train your farmer trainers. Organic compost is a great way to reduce climate change risks, and it also increases quality and yield.

## 6. Be even more client-oriented

Try to understand what your client is going through, so you can anticipate their demands. Even if your buyer's request is the opposite of your wishes, for example, on price or shipments, try to accommodate them as much as possible. They will appreciate you for this, solidifying your position as a valued supplier in the long term.

### Tips:

- Talk to your clients and check their websites to understand their situation. For example, Trabocca has listed [how coffee roasters are dealing with COVID-19](#). Be flexible in terms of delaying shipping, negotiating contracts and understanding the situation in European markets.
- Be price competitive and flexible in preparations.
- Help your client by shipping on time. Offer Free on Board (FOB) or even Cost, Insurance, Freight (CIF) instead of FOT.
- Be highly communicative and open, sharing problems as they arise.
- Be clear with the contractual terms, payment and pricing needed and any restrictions.

After these immediate actions, we now look at the short- to medium-term actions you can take. Health experts are increasingly predicting that humanity will have to live with recurrences of the same, mutated or entirely new coronaviruses for the foreseeable future, despite vaccines and medicines such as virus inhibitors.

The first way to respond to this is on a personal level: increasing your immune system through a healthy lifestyle. Second, the governmental response will be important: investing in health care and helping companies economically to survive this new situation. Third, companies also have to take action. The following recommendations are sector-specific steps to prepare your company for doing business successfully after the worst of the crisis is over.

## 7. Innovate your trade offer

In a post-coronavirus world, the crisis will have caused unemployment or a reduction of income among Europeans. The recession may force many people to choose lower-priced coffee than they were used to. Also, lingering virus conditions may continue to limit the activities of HORECA, the channel where speciality coffee is served most.

Many Europeans may have also become more environmentally conscious. They are becoming aware that virus contamination risks will increase due to the cutting down of forests and trafficking of exotic animals. Avoiding a climate crisis is becoming more urgent too. Such a crisis will be many times worse than the coronavirus crisis. This may result in a change in behaviour, from less flying to eating less meat, and from installing solar panels to choosing a more sustainably produced cup of coffee.

### **Tips:**

- Besides offering speciality coffee, offer a lower type of preparation at a more reasonable price.
- Get extra certification or offer coffee with a clear environmental story.
- Look into offering different varieties – plant not only productive but also exotic varieties that have another taste profile and can interest more buyers.

## **8. Increase the spread of your clients**

Limit your exposure to disasters in single sales-channels, such as the speciality coffee sector, or single regions like Southern Europe by diversifying your clients in terms of the channels they serve and the regions they are active in.

### **Tips:**

- Investigate what channels your current client sells your coffee to. For example, small speciality stores, organic chains, supermarket, or online.
- Work on getting clients that represent different types of channels and spread your clients regionally. This reduces your exposure to problems in one particular channel or region.

## **9. Improve your digital marketing**

A lockdown situation means more computer-related activities. Take advantage of buyers spending more time looking at websites, reading your blogs and updates or scheduling video calls. Buyers also have more time now to evaluate samples.

### **Tips:**

- Update your website.
- Keep records of quality from past seasons.
- Reach out to buyers to have a conference call. Plan regular calls, for example, once a month, with current clients.

## **10. Send samples**

Samples are a great way of showing the quality you can offer. Send many samples to new clients to increase your network of potential buyers. Gaining market share is very difficult to achieve. Many roasters/traders already have well-established supply chains. Make sure buyers know you and what you can offer as soon as they need an alternative supplier. Patience and perseverance are required. If you keep sending new samples to stay in contact with the buyer, sooner or later they may order a container.

### **Tips:**

- Improve your sample presentation. A good sample is packed in a neatly sealed plastic bag. It is preferably vacuum-packed, with a neatly applied label which has easy to read ink and high-resolution company logo. The label should include at least the following information: varietal, not simply “Arabica” or “Robusta”, but more specific, such as Catuai, Gayo 1, Obata, or Jackson; process, such as fully washed or natural; origin, such as farm, province, country; altitude & climatic conditions;

harvesting time; certification, if any; volume available and when and contact information.

- Contact buyers and potential buyers by e-mail or call them to introduce yourself and ask if they have an interest in cupping your sample. Simply ask their feedback, do not pressure them to buy your coffee.
- Send samples with a courier. This is relatively expensive, so budget for these necessary marketing costs.
- Follow-up with the buyer regarding their feedback. Take note of possible improvements you can make and do the above steps again.
- Know the quality of your samples by investing in a cupping lab and becoming an expert cupper. To do successful business, you need to speak the same “language” as your buyer’s cupper.

## 11. Diversify the income of your company and farmers

The World Bank warns that COVID-19 will push Sub-Saharan Africa into a recession, “increasing pressure on government budgets, and their spending on essential services and social protection. At a household level, farmer illness, higher food prices, lack of access to school meals for children, and possible disruptions to the supply of fertilisers and pesticides would all place increasing pressure on farmer incomes.”

Diversification of your farm, to create multiple streams of income or food sources, reduces these risks. Diversification into both cash crops, as well as subsistence crops, is recommended.

### Tips:

- Grow other cash crops, such as nuts, fruits or peppers.
- Look into mushroom cultivation and beekeeping.
- Stimulate home gardens for farmer families’ food security.
- Make sure there are enough shade trees to deal with the expected increase in droughts and as anti-erosion measures.
- Apply organic compost, which farmers can produce with household waste, decomposed by effective micro-organisms. Adding worms can provide even higher quality.

## 12. Improve your country’s or region’s marketing

Your country or region will be more likely to hold on to its buyers if it establishes online/trade fair visibility, works on common standard-setting and thus differentiates itself from its competitors. While [the Specialty Coffee Expo is moved from April 2020 in Portland to April 2021 in New Orleans](#), the European [World of Coffee in Warsaw, Poland, is postponed to October 2020](#). Expectations are that trade fairs can be held by that time. However, it is not clear how international travel will be possible.


### Tips:

- Approach your colleagues and your country’s Business Support Organisations (BSOs) to present your country or region to the international coffee community in an attractive way.
- Create a national quality standard, including a solid internal control system (ICS). For example, cupping before export, to improve the international stature of your country.
- Create an attractive national sector-wide logo, slogan and website, as well as social media tools.
- Look into living income differentials, non-deforestation coffee or other ways of raising your national coffee sector’s social and ecological Unique Selling Points (USPs).


This study has been carried out on behalf of CBI by [Jeroen Krufft of Amigos International Consultancy](#).

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