

## DIFFERENTIATED COFFEES: SUSTAINABLE QUALITY & VOLUMES



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#### SPECIALTY VS. DIFFERENTIATED COFFEES

#### **SPECIALTY**

- Quality
- Reliability
- Consistency B2C

#### **DIFFERENTIATED**

- Consistent volumes
- Reliability/partnership
- Quality

B<sub>2</sub>B

**COMMERCIAL** 





#### WHAT ARE DIFFERENTIATED COFFEES?

#### **CONSISTENT VOLUMES + QUALITY**

HIGHER QUALITY NATURALS

**WASHED** 

**PULPED NATURALS** 

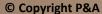
FINE COFFEES

SUSTAINABLE

**VERIFIED / CERTIFIED** 

WINNERS OF QUALITY COMPETITIONS

**ORGANIC** 





#### GROWTH OF DIFFERENTIATED COFFEES - BR



#### **EXPORTS:**

Differentiated

Conventional

Source: CeCafé



**Industrialized** coffees (RG and soluble)

**Conventional Arabica** 

**Differentiated Arabica** 





#### **BRAZILIAN EXPORTS 2012**

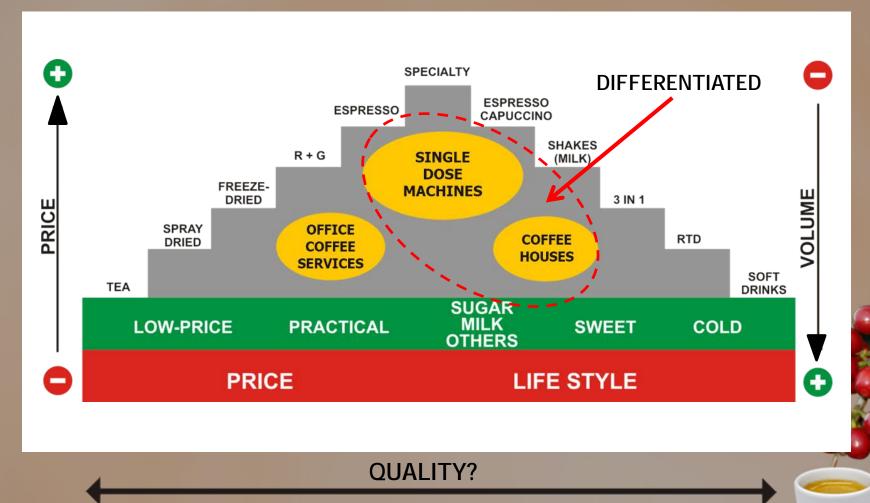
TYPE	THOUSAND BAGS	SHARE (%)	AVERAGE PRICE (US\$)
Total	28,281,157	100%	224.67
R&G and soluble	3,352,824	11.9%	205.61
Green coffee	24,928,333	88.1%	227.23
DIFF. ARABICA	4,647,635	16.4%	284.84
Arabica	19,135,081	67.7%	218.54
DIFF. CONILON	182,621	0.6%	184.25
Conilon	962,996	3.4%	130.13

Source: CeCafé

17% OF EXPORTS ARE DIFFERENTIATED COFFEES



### THE COFFEE LADDER AND DIFFERENTIATED COFFEES



**PREFERENCES** 

**SUSTAINABILITY** 



#### OPPORTUNITIES FOR DIFFERENTIATED COFFEES

- Producing countries with consistent volumes
  - higher volumes
  - quality
- Role of single serve and coffee shop chains
- Starbucks, Dunkin' Donuts, Mc Café, Keurig, Nespresso, Senseo, etc





#### COFFEE CHAINS EXPAND FAST IN NEW MARKETS

- Starbucks investing in Asia-Pacific
  - 500 stores in China
  - >200 stores in Phillipines
  - opening first store in Vietnam
  - roasting in India



- The power of Coffee Day in India
  - 1,400 Café Coffee Day stores in 200 Indian cities
  - 400,000 guest-visits per day
- 12,000 coffee outlets in Korea







#### COFFEE CHAINS EXPAND FAST IN NEW MARKETS

- Aspirational factor behind coffee houses
  - rising incomes
  - growing middle class
  - emerging café culture
  - young populations

- Paving the way for home consumption





### SINGLE-SERVE INNOVATES IN TRADITIONAL CONSUMING MARKETS

- Very strong in USA and Europe
  - convenience
  - choice
  - speed
  - replicate the coffee shop experience at home
- Pushing total coffee demand up
  - not a threat after all
- Major players:
  - K-cup / Keurig (GMCR)
  - Tassimo (Mondelez)
  - Verismo (Starbucks)

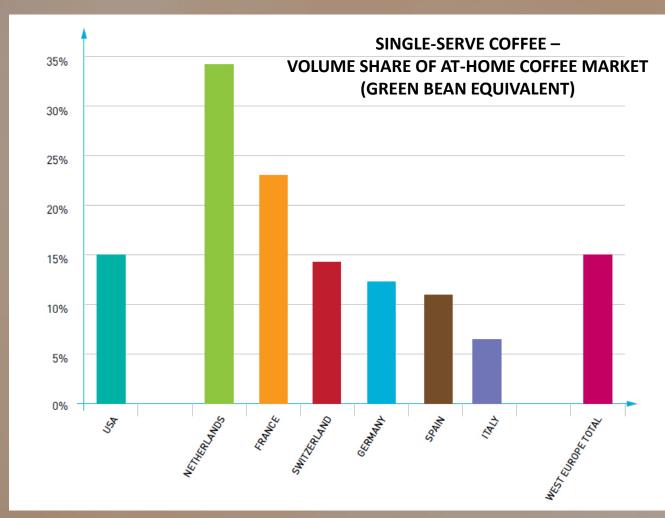
- Nespresso
- Senseo
- Dolce Gusto

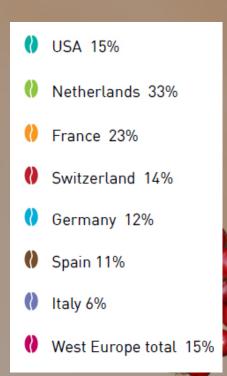
OPPORTUNITY FOR DIFFERENTIATED COFFEES





#### AND STILL MUCH ROOM FOR GROWTH...





Source: CBS&A - Volcafé



#### LARGE COMPANIES ARE RUNNING THE SHOW

- Strong communication channels with consumers
  - coffee shop chains
  - single-serve systems

#### THE END OF "NATIONAL" BLENDS?

- The sustainability message
  - value addition
  - marketing
- Unique opportunity to generate impact on the field
  - resources
  - commitments made towards sustainability
  - programs at origin

THE SUSTAINABILITY CHALLENGE





### SUSTAINABLE COFFE PROGRAM POWERED BY IDH



- Helping to promote sustainability in the coffee chain
  - public-private cooperation
  - pre-competitive initiative
- Programs currently underway in Brazil, Ethiopia, Uganda and Vietnam
  - founding industry members: Nestlé, Mondelez, Master Blenders and Tchibo
- Ambition of increasing sustainable green coffee sales to 25% in 2015



#### HIGH EXPECTATIONS ABOUT BRAZIL

- Today largest source of differentiated sustainable coffees... but still a long way to go

#### **SUPPLY ESTIMATES**

	2010/11	2011/12	2012/13	2013/14
Organic	80.000	80.800	81.600	82.425
Fair Trade	300.000	305.000	314.250	316.000
Utz	1.800.000	2.000.000	2.200.000	2.450.000
Rainforest	800.000	960.000	1.115.000	1.375.000
4C	5.500.000	6.500.000	7.700.000	8.350.000

TOTAL 2013 = 13 MILLION BAGS

Source: ICO and CeCafé estimates

SUPPLY NEEDS: 40% OF 50 MILLION BAGS = 20 MILLION BAGS



#### CHALLENGES OF SUSTAINABLE PRODUCTION

- Small growers
  - lack of knowledge / training
  - limited access to credit
  - misperception about advantages





- The question of price premiums
- Difficult for small growers to deliver large (sustainable) volumes
- The challenge of small growers



ARE CURRENT LOW PRICES STIMULATING OR DISCOURAGING SUSTAINABILITY?



### SUPPLY OF DIFFERENTIATED SUSTAINABLE COFFEES

**ARABICA** 

Brazil

Colombia Ethiopia

Honduras

Peru

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**ROBUSTA** 

Vietnam

Indonesia

Brazil

Uganda

**Ivory Coast** 

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"FINE TUNING" WITH OTHER ORIGINS
"WORLD BLENDS"





#### STATUS OF CONSUMPTION

- Tradicional coffee consuming markets
  - shift to at-home consumption
  - single-serve machines
  - private brands expand in retail
  - growing demand for differentiated sustainable coffees
- Producing countries and emerging markets
  - new middle class/new consumers
  - coffee shops
  - soluble coffee
  - single-serve options
  - immune to crisis?



CONSUMPTION KEEPS GROWING DESPITE CRISIS



### GREAT OPPORTUNITY FOR DIFFERENTIATED COFFEES

- Coffee consumption increasing
  - producing countries
  - emerging markets
  - consuming markets too
- Single serve systems and coffee shop chains expand fast
  - traditional markets
  - new markets
- New consumers entering market
  - Robusta
  - Arabica
- Increasing demand for differentiated coffees
  - higher quality
  - certified
    - traceable





#### THE SHAPE OF THINGS TO COME

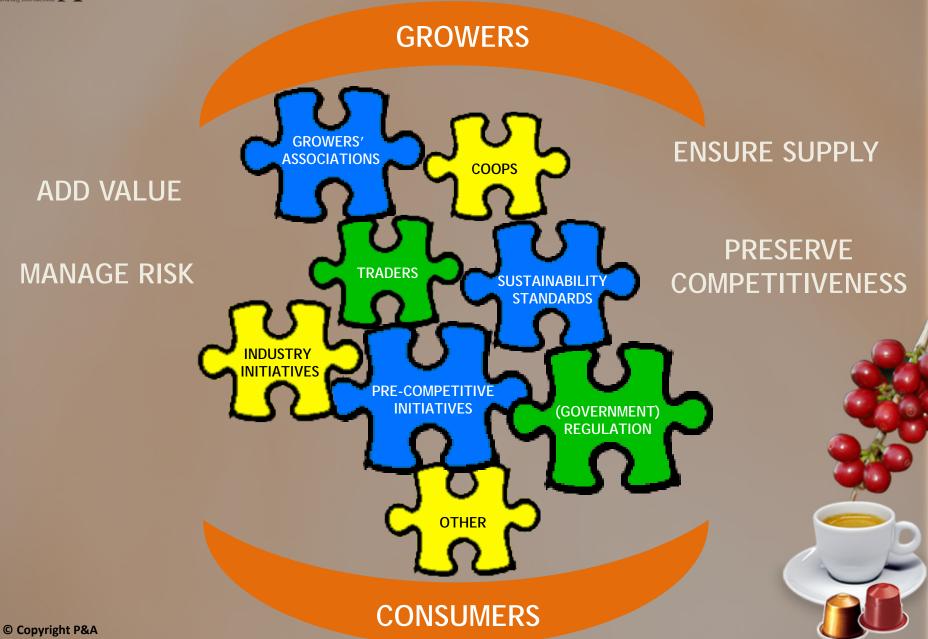
- World blends
  - coffee shops
  - single-serve
- Differentiated coffees
- Challenges
  - sustainabilits of supply
  - integration of small growers

INTEGRATED COFFEE SUPPLY CHAINS





#### **INTEGRATED COFFEE SUPPLY CHAINS**





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