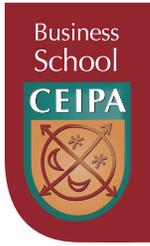


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Artisanal colombian coffees the third wave

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Understanding the Business

Background of the business:

- **Conceptually:**

With a total production of 150 million bags in the world market of coffee in 2014, Colombia only represents 5,9% of the share, being the fourth producer in the world. However, coffee has been one of the most important products for the economy and the culture of the country historically. In addition, coffee was the most important exporting item for the country for many years.

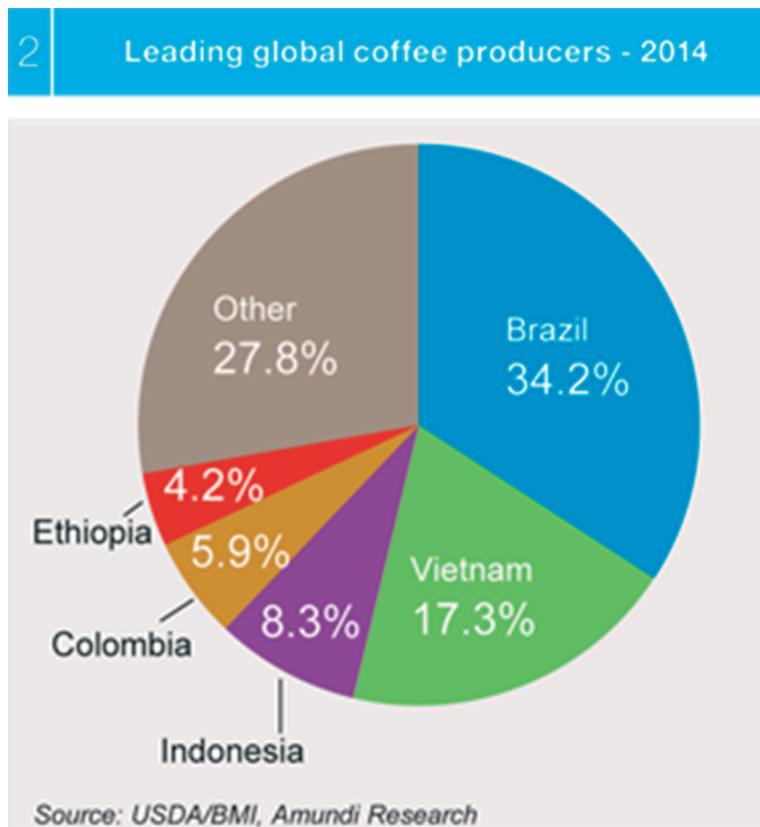


Figure 1 retrieved from <http://research-center.amundi.com/index.php/layout/set/popup/page/Article/2015/02/Price-volatility-and-production-shortfalls-what-s-happening-in-the-coffee-market>

While Colombia is not the biggest current exporter of coffee due to several external and internal factors that have affected its production, people in Colombia still feel proud of having the best coffee in the world. Although the market conditions have changed dramatically the last twenty years, producers are working to take advantage of new trends in this market traditionally perceived as a commodity, with higher earnings to particular toaster brands, but with little earnings for farmers.



Figure 2 Colombian coffee farms in Jardín Antioquia

• **Historically:**

Coffee has been traded since the XIV century between Muslim people. It arrived in Europe around the XVII century, and it subsequently came to South America in 1714, when the first coffee farm was established in Dutch Guyana. Finally, the first coffee roots were brought for French people and Jesuit priests to Brazil and Colombia in the XVII century.

The first farming was established in the east of Colombia, and the first commercialization of a harvest of 2,560 bags (exported through Cucuta to Venezuela) was registered in 1835.

Santander and Norte de Santander were the first coffee producing regions in Colombia, but the roots were quickly disseminated to central and west regions of the country to regions as Cundinamarca, Antioquia, and Caldas (also known nowadays with Risaralda and Quindío as El Eje Cafetero, i.e. the coffee hub).

In the second half of the XIX century, this item became more relevant as an exporting product due to the expansion of the world economy in this period. The United States of America became the most important coffee market in the world, and at the end of the XIX and the beginning of the XX century the production grew from 60.000 to 600.000 bags. Similarly, international prices and producers' profits plummeted dramatically in the same period of time.

Coffee production grew importantly between 1905 and 1935, and Colombia became the second world producer of coffee. By 1927, producers created the National Federation of Coffee producers - FNC. This Agency was in charge of supporting coffee growers, as well as developing the marketing strategy to promote internationally the product as a brand in a market dominated by Brazil.

However, that was the first wave, and recent market changes, consumer behavioral changes and the arrival of specialties related with chains like Starbucks have created a second wave. Consumers looking for different characteristics and kinds of coffees, have changed the industry dramatically.

There is talk about a third wave currently. The third wave is related with consumers interested in the character of the coffee itself, based on the coffee origins and artisan methods of production, quite different from the first wave of mass production and commercialization and derived from the defining and enjoyment of specialty coffees.

Nature of the business

The coffee business in Colombia still represents an important source of income to many farmers and communities in Colombia, although it is the third exporting item with a share of 7,9% and total FOB sales of USD 2,462,5 million¹ in 2016. Since Colombian coffee is just a commodity that depends on international prices, the producer is the least benefited with the sales, perceiving only 13% of the earnings.

The image below shows important data of the business up to 2014:

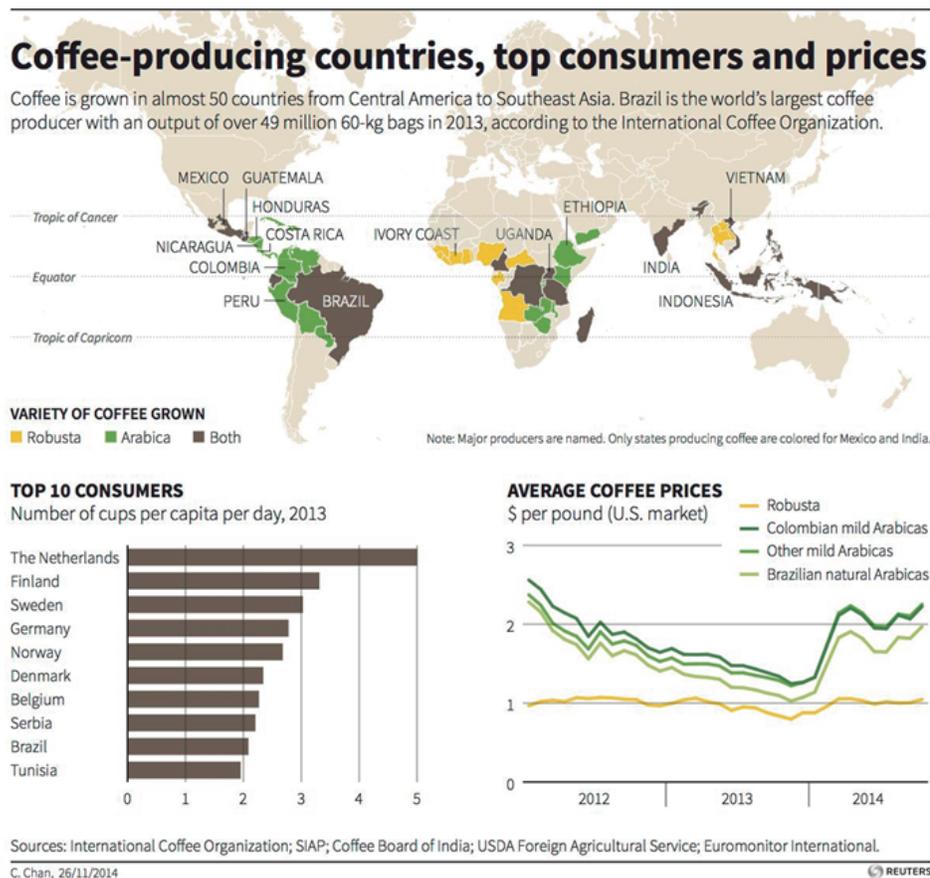


Figure 3 retrieved from <http://static3.businessinsider.com/image/56435e2c9-dd7cc10008c90ee-1195-1108/world-coffee-production.jpg>

¹ http://www.mincit.gov.co/loader.php?lServicio=Documentos&lFuncion=verPdf&id=77319&name=OEE_espanol_Perfil_Colombia_16-03-17.pdf&prefijo=file

Identifying the Opportunity

- **The marketing opportunity**

- o **Factually**

There is an important trend in the coffee world market produced for specialty coffees, and for important companies such as Starbucks. Coffee is in vogue and consumers are wiser and more demanding about this topic. In addition, enthusiasts worldwide are developing a devotion to the product very similar to that of wine; they are interested in the origin and the particular characteristics of the product, and Colombian producers are not too far from this trend. Many farms are developing products with certificate of origin from the region, or even the name of the farms, regardless of their size. This is the case of Café del Huila, or Café de la Hacienda los Robles (or HR61²), a harvest for which the consumers are willing to pay large amounts of money.

There is a trend; there is an opportunity, and Colombian producers have all the advantages and the potential to explore this new market. This does not imply that coffee will disappear as a commodity; it is still a big market but it is not sustainable. This is the reason producers must diversify their offer and add value to the product.



Figure 4 coffee crops pictures courtesy of finca La Meseta Andes Antioquia.

² <http://www.eltiempo.com/economia/empresas/la-historia-detras-del-cafe-mas-carro-de-colombia/14606292>

o Statistically

It is also important to take into account the opportunity of specialties in order to develop strategies to reach this market with Colombian coffee brands.

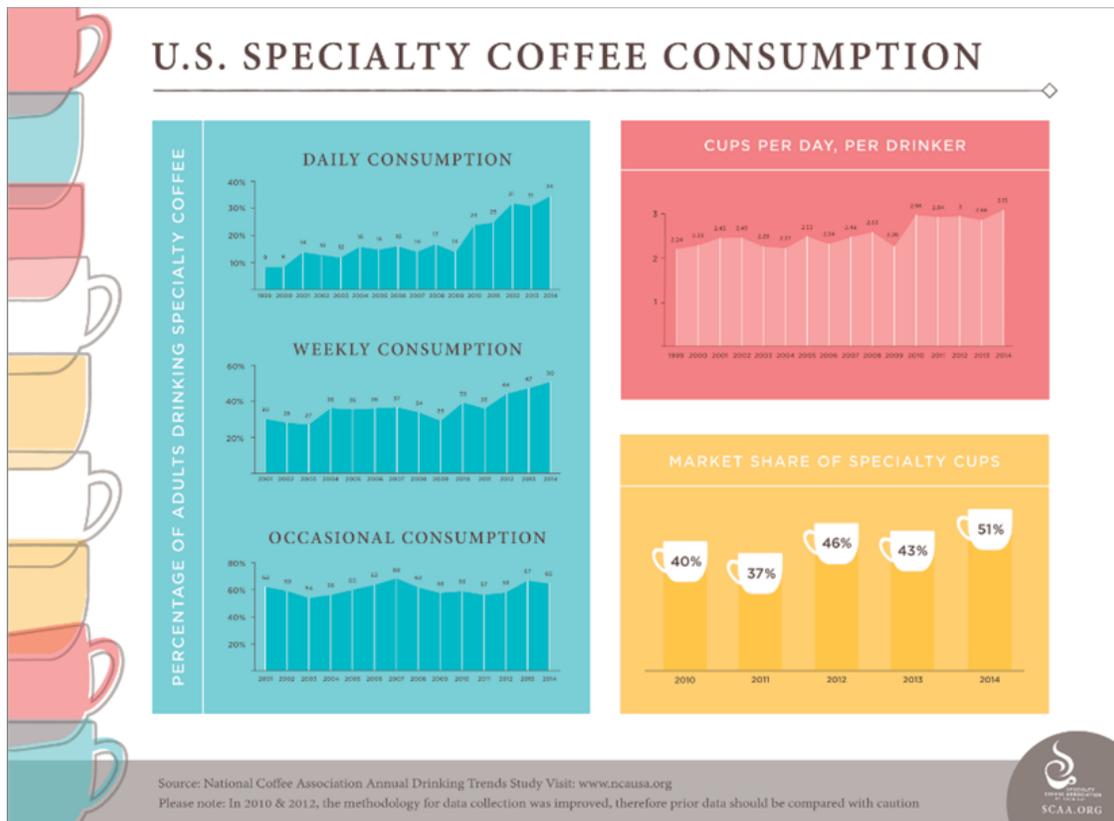


Figure 5 retrieved from <http://www.scaa.org/chronicle/wp-content/uploads/2014/12/S-screen-Shot-2014-12-10-at-2.34.52-PM.png>

Proposing a Solution

1 Statement of the problem or opportunity

The big opportunity to Colombian coffee is to reach customers in a different way, thereby taking advantage of new trends and adding value to a product that has been commercialized as a commodity historically.

2 Stakeholders affected by the problem or opportunity

Chiefly potential clients and coffee consumers around the world who are looking for a quality product with certificate of origin and specific characteristics. Secondly, hundreds of thousands of farmers that will perceive income from selling a product that has high added value. Also, employees of the FNC and the Juan Valdez cafeterias in charge of the success of the strategy to promote Colombian coffee around the world. Finally, farmer communities that will perceive more benefits from the commercialization of the best coffee of the world.

3 Root causes of the problem or opportunity

- Historical economic and cultural importance of the coffee farming for the Colombian economy.
- Growing competence around the world.
- Consumer behavior changes.
- New consumption trends.
- A stronger and recognized brand and origin around the world.
- Low incomes of farmers producing and selling only a commodity.

4 Possible solutions

Solution 1: To keep Colombian coffee only as a commodity and commercialize only grains without added value.

Pros:

- To keep the same market.
- To reinforce the Colombian coffee brand as a commodity.

Cons:

- To lose a market trend and opportunity.
- To lose profits commercializing a raw material without any value added.

Solution 2: To focus on trading Colombian coffee roasted and brewed through the Juan Valdez brand in their own coffee shops, and supermarket chains, in order to compete with Starbucks and other “100% Colombian coffee brands”.

Pros:

- To profit a new market trend.
- To increase profits for growers.
- To expand the brand across the world.

Cons:

- To loss important buyers of the commodity.
- To lose market share.

Solution 3: To keep selling Colombian coffee as a commodity and to commercialize Colombian coffee roasted and brewed through the Juan Valdez coffee shops and other specialized stores around the world.

Pros:

- To add value to the brand.
- To increase market share.
- To differentiate from the competitors in the same segment.
- To increase profits.

Cons:

- The risk of loss commodity buyers.

5 | Solution chosen and final implementation

I think that the best strategy to give momentum to Colombian coffee is to keep selling Colombian coffee as a commodity, and to commercialize Colombian coffee roasted and prepared through Juan Valdez coffee shops and other specialized stores around the world, thus taking advantage of the highest potential of local and regional brands with certificate of origin.

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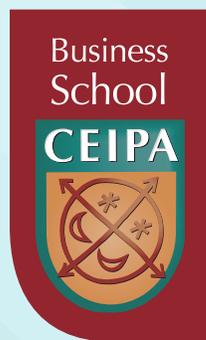
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