

Coffee: Rise or Fall?

Why I am here today? To support Jorge Cardenas, a friend for more than 30 years and the great Nestor of Colombian coffee. In his ambition to establish a scheme serving the coffee industry for the years to come. I personally regret it very much that he has to face in the late days of his career the lowest coffee prices for producers. I am also aware that 20 Million families representing about 100 Million people in developing countries are at risk if coffee has no future. What shall they do? Planting drugs for an increasing number of consumers. Is that what we wish? Are we here to promote drugs instead of coffee?

My great teacher, Mr. Bernhard Rothfos, repeatedly said:

"Coffee is the fuel of civilisation - drugs are the cancer".

Therefore we, the coffee industry, have to make sure that young people drink coffee and don't consume drugs.

Our being here serves one purpose: More coffee to young people, less drugs.

Statistical assumptions until 2003: After these emotional words let me become more economical, more factual and review with you the future of coffee consumption and coffee production. I took the year 2003, it might as well be 2004. It should however show trends.

- World Coffee production: Might grow to 120 Million bags per year in 2003 and 2004
- World Coffee consumption: Maybe as low as 108 Million bags per year for the same period.

Thus World coffee stocks might be increasing to 70 Million bags. Coffee prices for New York "C" may fall to 40 cents and prices for New York "Robusta" to 10 cents per pound. These numbers may be challenged, but worldwide the trend of increasing production is not met by an increasing consumption.

Many of you may say there will be a frost, a natural disaster.

I may even argue that there might be a trend of dislike or medical issue concerning the consumption of coffee. I therefore suggest to take the situation seriously.

What to do: I don't want you to believe that I am a politician, a scientist or a coffee farmer. I am at best a businessman and coffee drinker. I would like to share with you some learnings I received during my career as key shareholder and CEO of the Jacobs Suchard group in the 1970's and 1980's of the last millennium. I again would like to quote Bernhard Rothfos who said:

*"Don't sell a pound of coffee -
but do sell the conviction that coffee is a fuel for civilisation".*

In the 1970's and 1980's we at Jacobs Suchard observed two rules:

Rule No. 1: Introduce coffee products according to the dreams and the desires of the consumers

Rule No. 2: Keep your advertising budget for coffee at the level of the leaders of the soft drink industry, not allowing the soft drink industry to steal consumers from coffee.

- In the early 1970's we introduced in Germany a new top quality product: "Krönung". This meant the best of the best. "Krönung" became the leading single coffee brand in Germany at top price.
- In France, a Robusta market, we launched "Carte Noir", a product, full of desire, full of sensual emotion. "Let people enjoy their dreams, their desires and charge for it!"
- Starbucks became a success and a new culture of coffee in the United States
- In Italy Illy and Lavazza launched excellent quality coffee, Italian espresso. A new culture, a new desire.
- In Colombia, the Federation created "Juan Valdez" as the promoter of Columbian coffee. A hero, a friend, a coffee grower, a trusted person representing a dream for quality.
- Nescafe advertises wonderful moments in life at creating and a new atmosphere for coffee. Nespresso is another confirmation that Nestle's coffee is alive.

Prices: When I travelled visiting grocery shops at the end of April in the United States I observed that a pound of Starbucks was 7.69 Dollar, whereas Public's private label -Columbian quality- was at 2.40. In other words: For the same origin a consumer in America was prepared to pay for a dream of Starbucks coffee triple the price in comparison to a product which does not have a dream. You know other examples:

- A bottle of usual Bordeaux costs about 3 to 5 Dollars
- A bottle of Chateau Margeaux values between 30 and 50 Dollars
- A tablet of Lindt & Sprüngli chocolate costs about 1.50 Dollars
- A tablet of a leading retailer 30 Cents

The price is an issue, as long as you do not advertise or do not establish a dream in the mind of the consumer.

Pricing as a strategic weapon: There is no doubt that products able to establish the lowest cost price have an advantage. If Vietnam is the cost leader, people who have to compete with this coffee have to be equal to the Vietnamese coffee price i.e. 10 to 15 cents per pound.

Conclusion: A very well known coffee farmer and exporter in Salvador asked me: *"Klaus, you know coffee. What do I have to do to survive with my family and not lose my fortune?"*

I offered my learning: *"First try to establish your product as the one most desired by the consumer. Make it valuable, offer additional services. Just be the best of the best. Promote the product and be proud to achieve a super price". Lacking these possibilities, being aware that you are one of*

the crowd, reduce your cost price level to the level of your most feared competitor. Cut all items which do not add value to the consumer. If you can not achieve neither to be a dream to your consumers nor, to beat your most feared competitor in pricing. Reduce your investment to the level of comfort, but never risk neither your own nor your family's life."

What has to be our conclusion?

1. Let's make coffee drinking a desire,
the think drink in the new millennium!
2. Let's cut the costs to compete in pricing
3. Let's adjust production if neither 1 nor 2 works
4. As consuming countries give a strong hand of help to the producers
for at least 5 years to adjust production / consumption within a new
ICO.
5. Let's not promote the cultivation of drugs instead of coffee