

Coffee

Black as hell, strong as death, sweet as love - Turkish proverb

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The origins of coffee

- There is a legend of Kaldi the goatherd from the Arabian Peninsula whose goats got high on a shrub with dark green leaves and bright red cherries (Coffea Arabica). Local monks then started using the berries to stay awake during prayers before spreading the word to other monasteries around the world and starting the coffee revolution
- The coffee shrub (Coffea arabica) probably originated on the plateaus of central Ethiopia and was then introduced to Yemen
- Coffee has been cultivated in Yemen since the 6th century

Coffee types and coffee making

- There are 6,000+ species of the coffee plant split into 25 major types
- Two species dominate commercial production: Arabica (Coffea arabica) and Robusta (Coffea canephora)
- World coffee production is split 60% Arabica and 40% Robusta
- Arabica is a large delicate bush that grows at elevations of 600-2000 metres above sea level in Latin America, Central and East Africa, Asia and Oceania
- Because Arabica is difficult to grow, the beans are more expensive than Robusta beans
- Arabica can be drunk pure or in blends with Robusta where it contributes acidity and body to the blend
- Robusta is a more hardy bush or tree that grows from sea level to 800 metres and is grown in West and Central Africa, South East Asia and South America
- Robusta is more strongly flavoured than Arabica and gives blends body and "kick"
- The person who actually makes the coffee in a café or restaurant is called a "barista"

- Proper coffee making requires the barista to make very precise measures of coffee amounts, water temperatures and pressures, and brewing times (e.g. 22-28 seconds)
- Good coffee brewing requires a balance of the 4 "M's"
 - *Macinazione*: correct grinding of the coffee blend
 - *Miscela*: the coffee blend used
 - *Macchina*: the espresso machine used
 - *Mano*: the skill of the barista.
- Australian Paul Bassett from Espresso Emporium in Sydney won the 2003 4th World Barista Championship held in Boston

Coffee health issues

- Coffee contains caffeine which can lead to caffeine-induced anxiety including agitation, jitteriness and irritability
- Large doses (over 200 milligrams) of caffeine can disturb sleep, and can lead to headaches
- Caffeine is also a diuretic and can cause dehydration
- Extensive Australian and international research has shown no evidence of a linkage between caffeine intake and cancer, cardiovascular disease or any other function including pregnancy though moderation is still recommended for pregnant women
- Recent research suggests that people with a high coffee consumption (7+ cups a day) have a far lower risk of developing Type 2 (adult onset) diabetes

Coffee statistics

- Global coffee consumption in 2002 is expected to equal 105 million 132-pound bags
- Coffee production in 2002 is expected to have exceeded consumption by about 35% leading to the lowest coffee prices in a century
- Australian coffee consumption has increased from 0.5 kilogram/person in 1940 to 2.4 kilogram/person in 1998
- Australia imported 49,000 tonnes of green bean (the final dried stage before roasting) in 1996
- Australia has a small coffee production industry centered on the east coast of Queensland that produces about 200 tonnes of green bean per annum
- Half of the Australian output is exported with most of the remainder going to specialist Australian gourmet coffee producers
- In 2002, the five most popular beverages consumed by adult Australians when eating out of home were in order: coffee (excluding cappuccino), carbonated drinks, bottled water (still), cappuccino, milk

The Australian coffee industry

- The coffee roasting, distribution and wholesaling industry in Australia is worth about AUD\$10 billion a year and is growing fast
- A coffee roaster can make good profits as they typically buy raw green beans for \$5/kilo and sell the roasted beans for \$20-\$30/kilo, and up to \$50/kilo
- Coffee chains such as Starbucks, Hudson and Gloria Jean's have not yet had a major impact upon the Australian market

- The high profits make the industry very cutthroat and this is expected to lead to consolidation over the next five years into fewer large players
- The main brands that supply cafes are committed to marketing with Cantarella (Vittoria and Aurora brands) estimated to spend 10% of its \$100M/year revenue on brand building and management

The Australian café industry

- Making and selling coffee immediately in cafes and restaurants accounts for 20% (or about \$2 billion/year) of the total Australian coffee industry
- A well run café will return about 20% per annum profit
- The average \$2.50 café latte contains around 22 cents of coffee ingredient
- A medium sized café can make \$25,000/year in clear profit on coffee alone
- Coffee producers typically attempt to gain market share via service strategies (e.g. Vittoria) or by offering free coffee machines, or branded accessories such as umbrella's, sugar and cups
- Some producers offer cafes a "free on loan" machine with the cost of the machine and servicing built into the coffee price
- "Free on loan" machines may cost up to \$40,000 over 3 years
- Cafes will often use "free on loan" deals to reduce their capital costs

The Australian instant coffee market

- The Australian instant coffee market is worth about \$425M a year
- Nescafe is the instant coffee market leader with around 70% market share
- Nescafe spends approximately \$25M/year on advertising
- In 2003, Nescafe re-launched with a campaign through Publicis Mojo aimed at growing the market by getting Australians to drink one additional cup of coffee a week
- Nescafe's marketing will address various identified consumer behaviour drivers including:
 - How coffee can be reviving
 - How having a coffee can be an excuse for a rest
 - Helping people to understand and appreciate coffee more
 - Trying to get people to try more expensive coffee blends
 - Encouraging young adults to try coffee
 - Addressing health concerns
- Nescafe's 2003 marketing will incorporate print, in-store Point of Sale, Public Relations, promotions, web activity and trade marketing
- The instant coffee market was considered to be mature and stable until the launch of Riva by Cerebos Australia in 2003

Emerging coffee trends

- Starbucks is embarking upon a strategy of locating outlets within popular locations, e.g. Commonwealth Bank branches, Borders bookshops
- The co-location strategy has been very successful for Starbucks in America with outlets located in Wells Fargo banks, Barnes and Noble bookshops and supermarket chains
- The home market is growing fast with Illy (a major brand) saying that its home sales are now larger than its café sales

- The major industry players, e.g. Segafredo, are increasingly focusing upon the home market with distribution through delicatessens and supermarkets
- Many brands are trying to lift their brand image, e.g. Douwe Egberts, which struggled with its Piazza D'Oro brand, has created a new blend and brand in conjunction with celebrity restaurateur Stefano Manfredi
- Consumers are increasingly focusing upon the 'cult of the ingredient' with familiar flavours being redefined in terms such as purity or provenance
- The cult of the ingredient has also lead to a growth in the customization of products at the point of consumption, e.g. specialty coffees
- Flavoured coffees are popular in America but not in Europe which has strong coffee drinking traditions
- Coffee flavour trends are believed to mirror ice cream flavour trends with vanilla the current favourite

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