

ASSESSMENT OF COFFEE INTERNET AUCTION MECHANISMS

Impacts of the Specialty Coffee Auction Mechanisms

Central America and Dominican Republic

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Terms and Abbreviations:

AMM-Auction Marketing Mechanism. Term used interchangeably with “internet coffee auction” or “coffee auction”.

CADR-Central America and Dominican Republic

Destination-Refers to the market and buyers of CADR coffees.

Origin-Refers to the producing countries, and production-processing players of the CADR

Specialty coffees- These would include the full range of coffees that, for one reason or another, consumers are willing to pay a premium price. Certified coffees, as Fair Trade, Organic, Bird Friendly, Shade Grown, Ecologically OK, etc., as well as “excellent” tasting coffees (whatever the taste profile definition), would all be included in the broadest sense of the word “specialty”.

SCAA-Specialty Coffee Association of America

Executive Summary

As it currently exists, the “Internet Coffee Auction Market Mechanism” (AMM) being used by several countries in Central America is not a market or a commodity exchange, although the consultants feel that it has the potential to be part of, or contribute to, a Trade accepted commerce platform. The total number of sacks of coffee produced in the CADR region is about 12-15 million, and the total current annual sales via the internet auctions for the CADR countries involved is around 5,000 sacks of coffee. This amount of volume (3 ten-thousandths of the total) is not even the size of a market niche.

There are many clearly verifiable benefits of these Coffee Auction events, BUT one of the benefits is NOT a significantly increased volume of sales of specialty coffees (or any coffees) at better-than-commodity prices. Key to understanding why the events have not resulted in increased volumes of sales at better prices is the simple fact that, as the auctions currently are employed, *they are a promotional tool*, and **HAVE NOT YET RESULTED IN ACCESS TO A BROADER MARKET**. The registered buyers involved in the Internet coffee auction process are buying very small amounts of “special coffee” for an assortment of personal, altruistic, or business motives, but not to fill their overall customer requirements.

A common current that ran through all the interviews, **both** at Origin (suppliers) and Destination (buyers) was the interest that the Auction events definitely continue (be sustainable), but in a way that was financially feasible for all players (and their partners) to afford. No one was kidding himself or herself that either Origin or Destination alone would pick up the whole bill for the Auction events over the long term, no matter what the total cost (all-in costs including volunteer time and materials were reported to range from a low of about \$50,000 to over \$200,000 per event depending on the country and organizer). And both parties, while acknowledging the intrinsic worth of the events, are concerned to reap the benefits of the events at the lowest cost, with more efficient use of (the mostly) volunteer human resources, and in a way that nets the broadest amount of results (read greater volume of sales at better prices) in their respective business activities. These viewpoints demonstrate a no nonsense business focus by both Origin and Destination players as concerns the Auction events.

While this strong desire to continue coffee quality competitions/internet auctions is clear in each of the five countries in the CADR that have some experience with them, it is also clear that the event(s) are not as yet part of any coherent marketing strategy of the origin countries either individually or in concert. Some countries (national coffee institutes, etc. included) might think they have a marketing strategy, but if they do, it certainly has been ineffective to date in achieving sustained better-than-commodity prices for the vast majority of the small farmers who produce about 40% of the coffee in CADR, and whose production could potentially qualify for at least 50% of the potentially “special” coffees in the region.

Based on the results of this assessment, the real benefits and results to date of the Auctions are three in number: (1) a valid and effective in-country quality promotional tool, (2) an industry publicity technique, (3) a sensitizing method that has raised the awareness of the rewards of quality at Origin. The majority of the beneficial impacts have been on Origin players (specifically farmers and processors) who have developed a ***newly energized motivation, appreciation, and interest in QUALITY***. This result is crucial to the foundational marketing tool of differentiation (see box at right and ANNEX 4, a purple cow *stands out* in the herd), as it is quality that is the primary characteristic that the specialty coffee market segment demands. Ultimately it is differentiation that will be the bridge to a viable business model for the small farmers with potentially special coffees in the CADR region. It should be noted that there do exist several green coffee commerce platforms that have varying degrees of Trade acceptance (see Annex 4). The goal then would be to sell coffees that people are buying, and buying at better-than-commodity prices.

Five “P’s” of Marketing:

Product

Price

Positioning

Promotion

Purple Cow

<http://www.sethgodin.com>

[/purple/](#)

The statements above include both independent country coffee auctions, and the Cup of Excellence auctions. Both types of events have very similar approaches, mechanisms, and local impact results, but without the crucial broad-based incremental volume of coffee sales at higher prices.

II. Summary of Conclusions and Recommendations

Conclusions and Recommendations for the Technical aspects of the AMM

- Use of SCAA standards, including forms and protocols, assuming that the SCAA will agree to keep such items static, with revisions allowed only after years of testing and research.
- Development of a “judge certification” criteria and use of these Certified Judges in events. The criteria for passing a judging exam should be transparent to the trade and public. The criteria for national judges and international judges are the same in terms of sensory skills. National judges will have more knowledge of the origin, and International judges will have a market bias. **Certification, not buying ability, should be the rule in selecting judges.**
- Care should be taken to ensure the least amount of time possible in which coffees are put in bonded warehouses, to ensure maximum participation at the origin.
- Use of internationally recognized head judges for the international panel, even if these judges must be paid.
- Statistical tracking of judge’s scores, to ensure that judges that consistently rank high or low compared to the group are eventually not used in future judging.
- Establishment of an international panel of certified judges to act as a governing body for the conduct of evaluations, which will solicit feedback from buyers and farmers and use this information to continually refine the process.
- Ensure that ALL standards, protocols, methods of selection and rules are overtly transparent (published and available) to the broadest number of participants and trade representatives to ensure transparency in the mechanism.

Conclusions and Observations from the Market

- ❖ The general sense of the U.S. specialty roasting trade is that something needs to be done to improve the sustainability of the specialty coffee supply.
- ❖ Unanimity of purpose (specific focus on promoting special coffees from around the world) is a goal of trade groups like the SCAA, but to date this single focus remains elusive.
- ❖ Any large-scale initiative that achieves critical mass within the industry will at least have a chance to be viable. Critical mass will not be achieved unless the industry at large feels that an initiative addresses quality, sustainability, and fairness.
- ❖ The concerns of critical industry segments, like importers, will need to be addressed. Their mistrust of NGOs and trade groups on this issue is profound, and without proper care they are in danger of circling their wagons and leaving any such initiative isolated from their core business (and therefore major volume of coffee trade). It is important to understand that many importers see Rainforest Alliance, Organic, Smithsonian, etc. as one big group of people who are idealists who don’t have a shared legacy of making a living trading coffee. Instead, they muck up the coffee exporter/importer’s business by trying to promote their ideals. Many respondents put CQI, COE, Technoserve, CLUSA, Chemonics, and other donor driven groups in the same light. Perception is reality.

- ❖ A trade-based approach to a new AMM from a neutral party is warranted.
- ❖ Assuming such concerns can be addressed, a well-executed initiative with credible standards and procedures will have some traction with roasters, at least initially. Ensuring that a thorough knowledge of how the coffee trade functions at the smallest levels will be key to designing a workable system.

Recommendations of specific items in the creation of a new AMM such as the CQI effort:

- ❖ Detailed study of the Kenya auction system to identify key lessons.
- ❖ Detailed study of other ecommerce platforms that importers and others are currently using.
- ❖ Engagement of specialty importers with an open mind from a neutral figure. This should be approached much like a “settlement” talk.
- ❖ Strategic alliance and agreement with ACE, the governing board of Cup of Excellence™. This will ensure that supporters of existing AMM do not undermine the new AMM.
- ❖ Establishment of a governing board for the new AMM, with coffee experts and all segments of the trade represented.
- ❖ Implementation of judge training and certification program BEFORE platform launches.
- ❖ High-level publicity events at trade forums AFTER the judges are certified. (SCAA, SCAE, NCA, World Coffee Symposium) detailing protocols and procedures.
- ❖ Avoidance of creating the Q contract as a “brand”. The stock market is not a brand, even though it is widely recognized. People will invest time, confidence and money in the Q contract, but they will not buy it. They will buy coffee. A large amount of time and money can be wasted trying to promote a brand that does not exist.
- ❖ Recognize that the AMM is a one event per year auction platform only at this time.

Conclusions and Recommendations from Origin:

The observations from cupping competition and auctions are:

In Annex 2, Technoserve (Nicaragua) did very complete, professional evaluation of the their COE auction. The consultant carefully reviewed this evaluation, and the observations verified during the interviews in each country. This evaluation assumes and focuses on two items: continued donor financing, and improving the process, not the **MARKETING RESULTS** of the events. For Lessons Learned and general information about the COE auctions, this evaluation is deemed complete and should be reviewed by all the countries using auctions.

- Competitions and auctions for products generate large amounts of interest, excitement, and enthusiasm in the CADR countries.
- Friendly competition (as in the coffee cupping and auction) is an effective and efficacious motivator to improve quality (and therefore ones chance to “win” in the sense of selling at a better price) in CADR.

- The people involved in coffee of CADR enjoy the competitive process, and are good sports about winning and losing, often taking the long view of generalized benefits for their trade, product, and country's image.
- CADR peoples appear to have an "it's not if you win or lose, but how you play the game" mentality; therefore lack of transparency (especially restricted access to market and potential buyer information) is not tolerated and causes significant criticism and negative perceptions.
- Tying "winning" to a monetary reward turbo charges the interest and word of mouth publicity of an event in Central America.
- Pride of workmanship is a nearly untapped resource in the CADR countries, as evidenced by the respect, admiration, and positive publicity generated by the Auction events for the winners in the individual countries.

Origin Strategy Recommendations

- The escape from commodity pricing is differentiation based on consumer preferences and tastes. The anachronism of "sellers shape consumer demand" is hogwash. Sell people what they are buying, don't ask them what they want, and then try to sell them what you have instead.
- Respond to the growing market demand shift to good quality coffees. Lower quality coffees (with similar to higher grown coffee cost structures) below 800-meters in CADR would therefore not be promoted.
- Provide technical assistance as needed to establish the most cost effective competition and quality/volume based auction framework. Cost effectiveness will be most impacted by the VOLUME of specialty coffee sold by using an auction platform. Unless the issue of volume sales at better than commodity prices is addressed, the auction platform will have little positive broad based economic impact on small farmers in the CADR region.
- Continue to support the coffee cupping competition and auction process, but eliminate donor funding for at least the auction portion of the events.
- Focus donor funding for technical assistance and training in the areas of quality improvement all along the origin continuum. This would include training farmers in quality issues, millers, quality technicians (cuppers), etc. The quality orientation *tradition* at Origin is detection and elimination of defects (quality *control*), and not continual quality improvement and identification based on market desires.
- Allow Origin players to be responsible for their own strategies on how to best promote their "special" coffees. Facilitate brainstorming, planning, and strategy sessions with the specialty coffee groups in each country. Provide them with the tools and techniques they can use to come up with their own marketing strategies.
- Coffee Quality Project should continue to act as a catalyst so that the Specialty Coffee groups in each country meet together to form alliances and collaborate on strategies.
- Investigate other e-commerce B2B platforms that deal with commodities (including coffee) such as those below to see how they are handling their market issues.

<http://www.intercommercial.com/>, <http://www.coffee-exchange.com/>,
<http://www.egreencoffee.com/>, <http://www.ecaravan.com/>, <http://www.coffeex.com/>

Introduction

This assessment of the emerging market mechanism of Internet based auctions for specialty coffees in Central America has three sections:

- the mechanics and technical aspects of Internet based auctions (organizers and implementers) in CADR,
- the perceptions of the market (from importers to retailers), and the
- the perceptions and opinions of the various players of the coffee sector in supply countries of Central America where the various auctions have been held.

The methods used to discover the opinions, experiences, and perceptions of these groups were private interviews, focus group discussions, and review of published information and publicity about the auctions. These opinion-gathering interviews are not a scientific poll. A total of 134 people (about 20% women) participated in the various parts of the assessment, including:

Auction design and mechanics: Competition/Auction designers and organizers, quality control personnel, event judges, buyer participants.

At destination markets: major importers of green coffee, distributors, roasters, supermarket chain buyers, trade executives, and consumers.

At origin: coffee farmers, co-op representatives, coffee millers, exporters, auction organizers/implementers, quality control personal, origin located roasters/local market distributors, and coffee trade representatives.

Many of those interviewed participated one or more times in a country's auctions, and, in addition, people in the local (Central American) coffee industry who did not participate in the auctions were interviewed.

III. Auction technical criteria and applications

Coffees used in the AMM

The coffees used in the AMM are intended to be exemplary and unique coffees. While higher prices and status are traditionally conferred on appellation type names (i.e. Guatemala Antigua, Hawaiian Kona), these auction platforms attempt to market coffees based solely on their qualities in the cup – regardless of their origin. In fact, many auction winners have come from regions previously and commonly disregarded or unknown by the Trade.

With the AMM, coffees previously known only to the intrepid coffee buyer with lots of time and money to explore the origins are brought to the light, albeit in small quantities. Lot sizes in an AMM range from 2-250 sixty-nine kilogram bags (net 150 US pounds), and tend to average around 20 bags (3,000 US pounds). Clearly, the specialty coffee buyer is the target, which, along with the coffee, receives bragging rights to owning a champion coffee, as well as the option to tell the story behind that particular coffee.

Standards for selecting coffees

One fact that becomes immediately apparent when studying the current AMMs in the marketplace is that there is NO harmonization of standards for selecting, evaluating and describing coffees. At this time, the coffee trade is aware of three such AMMs, namely: COE, Kenyan, and “independent country” Auctions. Some may ask, is this a limiting or confusing factor? The Consultant thinks it is neither limiting nor confusing, however it does detract from the possibility of a completely unified image of what an AMM is meant to be. Coffee buyers are used to dealing with the unique attributes of 20+ origins, plus the rules of 4-5 currently existing certifications (organic, Fair Trade, etc.) so multiple and varied criteria and standards are not unknown. All three types of auctions use different standards. In the case of Cup of Excellence, the standards in place are still under development and have changed from event to event. The relationship of these standards (those of internationally recognized bodies as SCAA, SCAE) is in a state of flux. *Cosecha de Oro* and *Best of Panama* use SCAA standards, but these standards are also not static (see next section). For the purpose of this report, the

scope of analysis will be narrowed to discuss the standards of the SCAA and the variances between two auctions (Cup of Excellence and Central American individualized auctions).

SCAA Standards

The standards for coffee quality and evaluation promulgated by the SCAA come directly from their Technical Standards committee, currently chaired by Ms. Mary Pettit of the Colombian Coffee Federation. This committee has published standards on green coffee evaluation and grading, roasting, roasting analysis, water quality, brew standards, and has put forth a cupping evaluation form, which is relevant to this discussion. This cupping form has been in a design/re-design phase for several years, and even though it is now in use commercially, it still is occasionally edited. This is a source of frustration for many in the coffee industry as the continual revision is a barrier to its implementation as an international standard.

SCAA standards for evaluation of specialty coffees include:

- Green coffee evaluation (grading) with the use of their standard type grading poster and their defect evaluation handbook. SCAA Grading is primarily a means to exclude coffees from the cupping process, not to indicate final quality.
- Roasting and sample preparation according to their standardized protocols
- Cupping with the use of the SCAA cupping form, yielding a score from 0-100. Coffees scoring less than 80 are not considered “Specialty”.

Central/South American AMM standards

Coffees that are finally offered for auction in these AMM go through an intensive selection and evaluation procedure. The procedure and criteria are as follows:

1. Samples are submitted to the controlling body from each farmer or farmer representative. Ideally, these samples represent one day’s production, during which great care was taken to harvest and mill to exacting standards.
2. Samples are graded and examined physically to ensure that milling was done to “Specialty” standards. In the case of *Cosecha de Oro* the grading is done according to SCAA standards. It is not apparent that SCAA standards are used with Cup of Excellence™, although a physical examination definitely serves to eliminate a large portion of entries, yielding a final number of accepted green coffee entries close to 150.
3. Coffees are then roasted and cupped by a national jury (selection of jury members described in next section). The Cup of Excellence™ competition uses a cupping form that is NOT sanctioned by the SCAA. The Cup of Excellence™ competition organizers have indicated that the SCAA form is not suitable for competitions.
4. A first round of cupping by a national jury reduces the number of samples to approximately 80, a second round assigns numerical scores to the remaining samples, yielding approximately 50 coffees which score 80 points or higher. These coffees move on to the next stage.
5. At this point the international jury re-cups all of the finalist coffees. Coffees that score less than 80 points are eliminated. Any primary defect or more than slight occurrence of a taint is cause for elimination. One might ask, why should the 80+ score in step #4 be anything less in #5? This is because the international jury comes in at step 5 and verifies the work of the national juries. Since consistent excellence is important, re-cupping will expose coffees that may have defects that are spread out over more than 10 cups. Also, the advantage of wider experience and global criteria of the international jury is imposed at this point, and their version of an 80 may be slightly different than the national juror/judges. The purpose and end result is to adjust and calibrate the judge’s criteria to achieve the best uniformity in criteria possible.

6. The international jury then performs a second round of cupping. Any coffees over 80 points are finalists and invited to participate in the Internet Auction event.
7. The top 15 scoring coffees from the 2nd round are re-tested for a third time. The top 10 are awarded a numerical ranking in the “finalist” category. It is noteworthy that these coffees have been judged exemplary no less than five times.
8. In all events, a head judge is appointed in all panels, which will rule in the case of a question or a tie. The highest and lowest scores are always dropped for each individual entry.

Physical and Temporal conditions for sample evaluation

In this regard all AMM use some sort of written protocol and criteria for handling and evaluating samples. Types of roasters, roast color, available light, water quality and temperature, coffee to water ratio and hold times are all clearly specified. Multiple coffee experts have been on hand for all recent AMM and have commented on the consistency and thoroughness of the preparations. In this regard, the AMM entities seem to have a clear understanding that integrity in the process is needed to ensure faith in the results.

Selection of Judges for Central/South American AMM

Judges for these events fall into two categories – national and international. **National judges** are typically from the coffee industry in the country that is participating in the AMM. They are usually cup-testing managers at exporting companies or quality offices. Other judges may work at government or trade sponsored coffee science/research institutes. In all cases, the judges tend to be those who make their living tasting thousands of samples of coffees per year. Their knowledge of the coffees of that particular origin is usually quite extensive. One downside is that they may have a bias towards commercial coffees, causing them to rank coffees higher than judges from consuming countries.

The event organizers choose international judges. With the Cup of Excellence™ in particular, judges are chosen with an eye towards putting potential buyers around the table, or those whose recommendation will serve to attract buyers. Given that the AMM is intended as a commerce platform, this is to be expected. Of main concern to some in the trade, however, is the perception that some cuppers are more skilled or versed in a particular origin than others, which could lead to bias or erroneous results. Event organizers will counter that given the rigors of their cupping form (whichever form is used), their frequent group calibration exercises, and their practice of dropping high and low scores guarantees accuracy. Whether this is true or not, perception is reality to some percentage of potential buyers. Bias is also possible in reverse, for example the habitual buyer of Antigua coffees may not be able to appreciate the characteristics of a Cobán because it would not be something he expects of a Guatemalan coffee. National judges rarely have this problem, as they will doubtlessly taste all of the coffees their country has to offer in the course of their job.

Transparency and credibility of the AMM

In this regard, there are discernable differences between the two previously mentioned AMM. The credibility of AMM such as *Cosecha de Oro* and *Best of Panama* are in question for several reasons. One is that typical buyers, in large part, have not participated to a great degree in these events. Another is that criticism and animosity from supporters of the Cup of Excellence™ competition has proved to dampen the enthusiasm of the trade for these events. Additionally, Cup of Excellence™ competitions have always been presided over by an international coffee expert, whether George Howell, Willem Boot or some other recognized figure. These other “in-country” events have been supervised by the local industry themselves, which has created a credibility gap in the minds of some buyers.

The Cup of Excellence™ competition has none of the problems associated with the so-called “copycat” events, as it is the one that started the phenomenon. Indeed, its rigorous defense of its position of leader, as well as its conduct and standards may be one of the factors that leads to diminished confidence in the self-run auctions. Credibility of the process for selecting and evaluating the coffees is a given, and the presence of an internationally renowned coffee expert(s) gives the event a seal of approval for most buyers. A potential additional endorsement of their protocols by the SCAE will add further credibility to their event.

Where transparency is not apparent with the Cup of Excellence™ is in the selection of judges, both national and international. In an amazingly short time, this event has turned into a gathering place for the privileged few. The addition of a rule which only allows “registered bidders” (i.e. those who pay a fee) to participate in the judging has further narrowed the field of potential judges.

Conclusions/Recommendations

If the focus of the AMM is to bring the “best” coffees at origin directly to market in a credible fashion, the results of the efforts to date are mixed. Coffees are certainly put through a rigorous selection process, and it is not conceivable that a mediocre coffee could rise to the top ten, unless all of the judges were completely inexperienced. However, coffees that are evaluated are limited to the ones actually submitted – and it is certain that some fine coffees are pre-committed to other customers and not submitted. Also, the lack of a “certified judge” program opens the possibility, however slight, that enough inexperienced judges may taint the results. The lack of harmonized standards, and the on-going revisions to determine the “universal” standard, is damaging to the credibility of the AMM.

Conclusions and Recommendations for the Technical aspects of the AMM

The recommendations of the author, for any new AMM, would include:

- Use of SCAA standards, including forms and protocols, assuming that the SCAA will agree to keep such items static, with revisions allowed only after years of testing and research.
- Development of a “judge certification” criteria and use of these Certified Judges in events. The criteria for passing a judging exam should be transparent to the trade and public. The criteria for national judges and international judges are the same in terms of sensory skills. National judges will have more knowledge of the origin, and International judges will have a market bias. **Certification, not buying ability, should be the rule in selecting judges.**
- Care should be taken to ensure the least amount of time possible in which coffees are put in bonded warehouses, to ensure maximum participation at the origin.
- Use of internationally recognized head judges for the international panel, even if these judges must be paid.
- Statistical tracking of judge’s scores, to ensure that judges that consistently rank high or low compared to the group are eventually not used in future judging.
- Establishment an international panel of certified judges to act as a governing body for the conduct of evaluations, which will solicit feedback from buyers and farmers and use this information to continually refine the process.
- Ensure that ALL standards, protocols, methods of selection and rules are overtly transparent (published and available) to the broadest number of participants and trade representatives to ensure transparency in the mechanism.

IV. Market perceptions of the Internet Auction Mechanism

The market segment of the evaluation will focus on the value of the AMM as perceived by actual buyers and sellers (green coffee importers).

Conduct of Market Investigation

This report was prepared using over 100 hours of interviews with buyers and other associated participants in the US coffee trade. These included roasters (small, medium and large – retail and private label), importers, brokers, and grocery coffee buyers. This study encompassed both existing AMM (such as Cup of Excellence™) and the proposed “Q” contract platform being developed by CQI. Questions were asked to ascertain what the perceptions of an internet based specialty coffee auction were in the marketplace, and also to determine what the market thought were strengths, weaknesses and opportunities for the future. The following questions, at a minimum, were asked, several of which sparked lengthy discussion and several follow-up questions:

1. How important is the whole idea of coffee auctions to you?
2. Rate this concept as an idea.
3. How do you think it benefits your business?
4. How do you think it benefits the trade and/or industry?
5. Did you buy or sell any coffees from an auction?
 - a. Why or why not?
 - b. Which ones
 - c. How much
6. If you see a coffee listed in a coffee auction, do you assume that that is coffee of a certain quality? If yes, describe. Are some auctions more credible than others?
7. Describe your confidence (or lack thereof) in the system used to evaluate and select coffees for the auction.
8. CQI is proposing a new initiative to help the coffee producers in Central America (description by interviewer). What is your interest in this initiative? Do you think it is a good idea? Why or why not?

Results of the interviews were mixed on some aspects, and highly uniform on others. Even in the sections where responses were varied, they can be grouped into a few classes of subject matter, thus allowing for a clear view of the perception of different market segments on the issue.

Importance of the AMM to Roasters

With the exception of a very few roasting companies who repeatedly buy from the Cup of Excellence™ auction, the concepts of auctions and systems which are alternative to the current exporter-importer-roaster method are NOT considered important right now to the trade. Reasons for this were varied, including:

- “Gimmick” feeling of the whole process
- Not customer driven
- Need to be “in the club” for it to be beneficial to business (additional comment: many roasters feel that if they aren’t in the cup of excellence “club” they won’t be able to get any benefit out of it. They felt it was too dominated by personalities (Marcelo, Susie, George) and that if they were on the wrong side of those people they were better off staying away).
- Volume is too low to make a significant impact on sustainability (consistent supply of the same coffee, quality of life for farmers), which is something that their customers care about.
- There is confusion surrounding process; price/value relationship not clear.

One may ask, why aren’t the auctions seen as a good way to identify great coffees and the buyer use that identification as a starting point for commercial purchases? This is a bewildering fact; neither the seller (origin) nor the buyers seem to see the mechanism as a tool, rather than a market. This is really where the rubber meets the road and why people from the trade get so frustrated with “NGOs” and other “outsiders”; (and I have shared this frustration as a roaster on many occasions, even though I have great respect for NGO’s) it is a VERY important point, probably central to the whole thing, and while I hear the frustration that NGO’s express from time to time with the coffee buyer/market, it is important to understand how very real this frustration with NGO’s is on the part of coffee buyers.

Roasters are control freaks, and they are cynical. Every single sample that comes into their door is seen as an attempt to trick them or cheat them, and they make their living as “goalies”, keeping the bad ones out. This is just one more person/entity (i.e. NGO’s) telling them that they have the best coffee in the world, and that the roaster should buy it. Perhaps if the world were full of people saying “I have semi-OK coffee”, then they would pay more attention to the “purple cow” of the AMM; but, at this point they are completely desensitized to any such claim. Every farmer, exporter and importer in the world has the “best coffee”. The very fact that the AMM have NOT resulted in big volumes and that there are no success stories in increased sales or brand

awareness from companies, which have participated in the AMM, is enough to keep an already jaded roaster from expressing any more interest. When something shows them in a way that is meaningful that the AMM is really where the good stuff is at, they will get competitive; until then, it is just one more sales pitch.

While most roasters would rate the concept of the **current** AMM to be “not important”, the overwhelming feeling is that it could become more relevant. (See the comments immediately above) The AMM needs to be a market mechanism that is seen without a doubt to have “the good stuff”. This is also key in understanding why the Kenyan model is working a little better; roasters see it as THE place to get good Kenya coffees. Under these circumstances, a new and better AMM would not be opposed, as roasters are always looking to introduce price discovery, fair market value, transparency and increased relationships at origin. In their minds, this furthers the cause of sustainability. When looking within the makeup of a roasting company, the existing AMM has more meaning to the marketers within those companies, and less to the coffee buyers – unless they have been allowed to jump as an international juror at origin.

Importance of the AMM to Importers

One fact that is easy to determine in the US market is that, with a few notable exceptions, roasters don't like to “go direct” to the farmer/producer when it comes to coffee buying. Roasters are by nature risk-averse, and doubly so when it comes to international commerce. While many will advocate direct relationships, they will not advocate direct purchases. **Thus, the need for the importer continues in the current market structure.** Importers, without exception, are opposed to the AMM in any of the current incarnations. This is despite the early support of most specialty coffee importers. Their reasons for disliking this program point both to some failures in execution, as well as some inherent consequences of enforcing transparency in a trade that has had an established layer of middle men who do not favor transparency for over 150 years.

Importers made the following assertions and statements in the course of this study:

- “This interferes with my buying and selling relationships”
- “This is **too transparent** – it obscures the greater role that importers play in sustaining the *whole* farm. It paints a false picture for roasters and producers of how the trade of coffee really works.”
- “The risk for importers is completely under-appreciated.”
- “Auction lot prices are not sustainable in our experience”
- “Do we really want to encourage poor producers to participate in the lottery?”

While some of the above comments can be ascribed to the predilection of the average importer to play amateur economist, there are several factual issues that their discomfort is based upon. Some of these issues are of real significance and should be contemplated when designing a new and improved AMM.

First, it needs to be understood that importers have been buying coffees from farms and/or exporters for over a hundred years. While the current system may not reward the producer for their cost of production, it does provide a path to market for the coffee that is desired by the average US roaster, namely one in which the roaster absorbs very little risk and can receive coffee on short notice. The person who takes the import, customs and financial risks and invests cash in large inventories is the importer. To the importer this is a cost of doing business, one that is offset by tight margins on large volume commercial coffees, relatively large margins on smaller volume specialty coffees, and the occasional windfall from timing the futures market. **In the current AMM, the importer is an agent of transfer, meaning he moves the coffee from point A to point B and collects a small margin for his services.** If this were a one-time event, an importer may find this in his best interest, especially if it would win him goodwill from a roaster or producer. However, the ensuing “transparency” gives the roaster and producer the impression that all of the other non-AMM business the importer does is based on predatory margins. This is not true, and this is the basis of the importers concern. An importer may buy all of the coffee from a farm. Some of this coffee will be of very high quality, some commercial grade, and some of even lesser grades. The farm would not be able to survive if it only sold 15

bags of its absolute best coffee. Therefore, importers demand that their commercial support of farms and the margins per each type of transaction be looked at with a wider perspective.

This creates an important issue, especially since increasing quantities of quality coffee are being handled by the biggies, who are also exporters (Volcafé, etc.). To guarantee the quality needed, the exporter is an important agent and his quality control is a big source of value added, for which he should be rewarded. The other point is that many, if not most, importers and exporters make much of their income on volume, which will not be greatly affected by the specialty business. It is very important to understand that in most of these companies the specialty units are separate profit centers from the mother ship, and loyalties are not anywhere as united within the company as you would think. The specialty business relies on the big margin because the volumes are so small, so when a specialty importers' margins are reduced to commercial levels, they are no longer interested.

In summary, Importers are concerned about:

- Interference in buying relationships that have taken years to establish
- Unfavorable perception of them by roasters based upon one “artificial” transaction
- Large time, and dollar, investments for a very small margin
- 15 bags of high-grade coffee removed from a farm's output are enough to lower the grade of hundreds of bags of standard type coffee – importers cite examples of this happening.
- Defaults of specialty grade purchases when the sample is accepted as a finalist for the international jury
- Fees for importers determined by a segment of trade that doesn't understand the importer's business

Therefore, any new AMM must consider the problem of importation and the role and services of the importer. If roasters are unwilling to import coffee for themselves, and importers feel it is both unwise and unprofitable to do so, the coffee will not move from origin to roaster. Importers must either be brought into the system or worked around. Given the huge amounts of financial, logistical and inventory risk associated with importing, this author advocates the continuing path of inclusion.

Importance to other segments of the trade

There are two other segments of the trade that are 100% consumer driven. These are **private-label roasters** and **grocery buyers**. Three large private-label roasters were interviewed, and one grocery buyer. The unanimity of their responses is striking. All have the mentality that they will be ferocious buyers *as soon as* their consumers demand it. None is willing to attempt to “create a market”. The implications of this opinion are that in order for very large volumes of coffees to be moved via the AMM, retailers and their consumers must be made aware of the AMM, and assert their preference for coffee to be purchased in this manner.

Commercial sales resulting from AMM

The current AMM, particularly Cup of Excellence™, is very much a European and Japanese buying phenomenon. Only a handful of US roasters are consistent buyers. Of those that do, the average quantity purchased in a one-year span was around 200 sixty-nine kilogram bags. Several importers professed to buying larger quantities, however many also bemoaned the fact that they ended up selling them for much lower prices, if at all.

Perception of coffee qualities in the AMM

It seems that roasters truly appreciate the necessity of “buyer beware”. While the roasters and buyers surveyed professed varying degrees of confidence in the numerical rating system of coffees offered for auction in the AMM, none admitted to buying without first testing a sample. This is a very different state of affairs than C contract (commercial) coffee, where deliveries from the exchange are standardized, and samples are not even offered. An ongoing AMM that works on an SAS (subject to approval of sample) basis will be a time consuming, costly, and logistical nightmare.

Those who had been judges, or those who had friends in the industry who had judged before, professed a higher confidence in the rating system. Cup of Excellence™ coffees rated slightly higher with buyers, but not significantly. Interesting to note was the fact that numerous buyers professed a high degree of confidence in the coffees offered in the Kenyan auctions. Study of that model will prove useful in the on-going development of a new AMM.

Reasons for participating or not participating in the AMM

As stated earlier, the number of US roasters who actually buy coffees from the existing AMM is fairly small. This obscures the fact, however, that many more roasters “participate” in other ways. One way that roasters participate is by offering themselves as judges. More importantly, a significant number of specialty roasters contacted indicated that they **had bid** for coffees in the AMM. Most did this by leaving a max bid with an importer, who bid on their behalf. The final offer price for the coffees simply exceeded their bid.

Roasters who chose not to participate at all in the AMM were of two distinct categories. The first category can be described as “out of the loop”. These roasters were either completely ignorant of the AMM, or knew about it and paid no attention whatsoever. The second category can be described as “origin intense” and considered the auction to be a step backwards for them, as they were already very connected at origin and sourced the coffees that they wanted for themselves. These particular buyers also strongly indicated that their efforts were much more “farmer/producer sustainable” than the one-time payoff of the AMM.

Use of the AMM as a source of information on quality coffee

By and large, roasters who are NOT active at source were very happy to rely on the AMM as either a source, or an indicator of fine quality coffees, but only as a supplement to the coffees offered to them by their current roster of Specialty Coffee importers. Of note was the frequent comment “I heard of new regions in (producing country) through the auction – I never thought that good coffees could come from that section of the country”.

Confidence in the grading and evaluation system used in the AMM

Responses in this category, while both positive and negative, tended to hover near the neutral mark. As indicated in the section on perception of coffee quality, participating roasters still choose to verify coffee quality for themselves, so they do not feel the need to investigate the AMM methodology excessively. Some participating and non-participating roasters indicated that the “good old boy” makeup of the panels was cause for concern; others indicated that the presence of figures like George Howell (a well known industry person) gave them a feeling of confidence. However, in no case was confidence or lack thereof a primary reason for participating or not. Again, why doesn’t this make for a good place to start in identifying coffees? Actually, buyers in the U.S, and probably elsewhere, are happy to rely on exporters/importers to make the deals and take the responsibility for getting the coffee they want delivered and deal with them when things go wrong. They may even ask their importer to buy similar coffee from the same region/farm at a “better price” (i.e. cheaper) outside of the AMM.

Interest in additional AMM as proposed by CQI (Coffee Quality Institute, USA)

In general, opinions of the current AMM drove the opinions of the trade on any new AMM. Importers, who are very much against the current AMM, are even more so against the “Q contract” (Quality Contract) concept, unless the format is changed to address their concerns. Perhaps lending credence to their concerns, roasters who have participated to date indicate that they would rely on an ongoing auction platform as a great way to find price and value discovery and create relationships – over the services of their importers.

Of note is the perception by many that events like Cup of Excellence™ are more of an “Academy Awards” for coffees, and that the industry still needs something to sell the other 99.999% of specialty coffees in a manner that is more sustainable for producers. When pressed, even non-participating roasters indicated that they would look much harder at a commerce platform that was constantly available during the year, as long as the standards were open and credible, and that the logistics issues had been worked out solidly. Particular caution was given

towards starting any new initiative that required roasters to change the way they manage their inventories or inventory financing.

Private label roasters and grocery buyers again found any new AMM concept to be a non-event. They indicated that their support of any such concept would be proportional to the interest of their customers.

Conclusions

-The general sense of the U.S. specialty roasting trade is that something needs to be done to improve the sustainability of the specialty coffee supply. Unanimity of purpose is a goal of trade groups like the SCAA, but to date this single focus remains elusive. Any large-scale initiative that achieves critical mass within the industry will at least have a chance to be viable. Critical mass will not be achieved unless the industry at large feels that an initiative addresses quality, sustainability, and fairness.

-The concerns of critical industry segments, like importers, will need to be addressed. Their mistrust of NGOs and trade groups on this issue is profound, and without proper care they are in danger of circling their wagons and leaving any such initiative isolated from their core business (and therefore major volume of coffee trade).

-A trade-based approach to a new AMM from a neutral party is warranted. These are the questions to ask: Is the trade interested? If so how do the AMMs tap into that interest? Again, this is in response to the perception issue. The feeling among a segment of roasters/importers is that the AMM activity is something being imposed on them by outsiders. They need to feel included – this may involve giving up some control of your timeline but may yield better long-term results. The classic ‘buy in’ school of management is evident here.

-Assuming such concerns can be addressed, a well-executed initiative with credible standards and procedures will have some traction with roasters, at least initially. Ensuring that a thorough knowledge of how the coffee trade functions at the smallest levels will be key to designing a workable system. It needs to be asked, “Will origin countries taking responsibility for the post-auction assurance that the results are not confined only to the tiny samples sold, but that there are really commercial quantities of good coffee on those farms, result in more interest and sales?” The Answer to this question is unclear; as a roaster, I want a name on a contract that I can claim against – I won’t have any faith in “Guatemala” or “Anacafé”. Otherwise, there is not a difference between what is traded now – coffees sold on description have a built in assurance. If you mean that the countries will “vouch” for the fact that there is “more where that came from”, I don’t think that will make a difference at all. The roaster will need to hear that from their importer, in terms of number of bags, availability dates and guaranteed qualities. In writing. In triplicate. Etc...

Recommendations

The author recommends the following specific items in the creation of a new AMM such as the CQI effort:

1. Detailed study of the Kenya auction system to identify key lessons.
2. Detailed study of other ecommerce platforms that importers and others are currently using.
3. Engagement of specialty importers with an open mind from a neutral figure. This should be approached much like a “settlement” talk.
4. Strategic alliance and agreement with ACE, the governing board of Cup of Excellence™. This will ensure that supporters of existing AMM do not undermine the new AMM. The point here is that you need to be aware of ACE’s (COE) need to be differentiated in the market, so the buyer does not see one as substitutable for the other. If you don’t, ACE will go after the Q contract and try to bury it. Don’t

underestimate their power. The fact that the Q contract graders will be in origin instead of US is a good thing, as long as their certification comes from SCAA.

5. Establishment of a governing board for the new AMM, with coffee experts and all segments of the trade represented.
6. Implementation of judge training and certification program BEFORE platform launches.
7. High-level publicity at trade forums AFTER judges are certified. (SCAA, SCAE, NCA, World Coffee Symposium) detailing protocols and procedures.
8. Avoidance of creating the Q contract as a “brand”. The stock market is not a brand, even though it is widely recognized. People will invest time, confidence and money in the Q contract, but they will not buy it. They will buy coffee. A large amount of time and money can be wasted trying to promote a brand that does not exist.
9. Recognize that the AMM is a one event per year auction platform only at this time.

V. Origin Perceptions of the cupping competition/auction

Several origin countries have adopted Auction mechanisms (which includes a quality competition as a precursor event) as independent platforms for identifying quality coffees and thereby promoting them in world markets. The consultant conferred with a variety of players in the origin countries of CADR and considered the following starting points in assessing the value and nature of the AMM in origin and in preparing conclusions and the final report:

- Level of understanding of the objectives of the Competition-Auction
- Appropriateness of the auction as a international marketing tool for the national cup profiles and Traditional markets
- Benefits derived from the competition and auctions, including
 - exposure in the marketplace
 - resulting commercial interest and sales
 - gaining knowledge of markets
 - training of local (origin) cuppers and improvement of quality related techniques
- Operating responsibility for the competition and auction
- Perceptions of all phases of the Competition and Auctions, including
 - selection of international and national cuppers
 - financing options, e.g. proceeds of auction sales
 - use of results for future marketing
- Usefulness of the competition/auction events
- Observations based on “local country specific” and Cup of Excellence auctions
- Interest in an additional Auction platform as proposed by CQI
- Perceptions of cost/benefit of the different Auctions

Who was interviewed, how interview and focus group techniques were used:

The consultant conferred with the Chemonics Regional Coffee Program staff, and representatives of each Specialty Coffee Association chapter as a group in order to develop the basic question set for origin interviews.

The consultant selected an “opinion poll” type of approach, as this approach fit very well with cultural constraints in the region.

Prefacing each interview, the consultant/interviewer explained that he was collecting the opinions of a variety of individuals in the coffee sector of each country that has used the Internet Auction mechanism, and, because everyone is entitled to their personal opinion, that there were no “right or wrong” answers to the interview questions. It was also explained that the individuals interviewed would not be named in the report, unless specifically requested by the interviewee. The consultant also explained that he was not a buyer or seller of coffee, had no direct connection to the coffee industry, and had a neutral position. It was clearly stated that the primary purpose of the interview task was collecting their opinions, with the goal that their opinions would be available and potentially heard by all those interested in the coffee sector in a variety of countries.

People selected for interviews were generally sourced from the organizations involved in the coffee sector of each country, and included individual farmers, exporters, processors, sector institutions, government officials, cooperative representatives, and a few neighbors and family members of those involved with coffee.

The interview questions:

Ten questions were developed based the Chemonics “Scope of Work”, observations and conversations with representatives from the Specialty Coffee chapters of the seven countries (Guatemala, Salvador, Honduras, Nicaragua, Costa Rica, Panama, and Dominican Republic), and the prior experience of the consultant.

The questions were designed with two main objectives; to locate the interviewee in his/her role within the coffee sector (calibration questions) and open ended, thought provoking questions based directly on the SOW.

In all cases each person interviewed was given positive reinforcement of their opinion-answers in a variety of ways, and encouraged to elaborate on their answers.

At the end of the interview, an opportunity was given to each interviewee to add any additional questions to the interviewers list, and as well to add any additional comments or suggestions. In general, all those interviewed were more than happy to share their thoughts and opinions, and warmed up to the interview process to the point that some interviews went beyond an hour in length. Typically interviews were about 30 minutes long.

Questions used in each interview, with the summarized answers:

1. Have you participated in either the Coffee Quality Competition or the Coffee Auction? If so, are you interested in participating again?

As those interviewed were purposely selected to include participants and non-participants, the answers were mixed about 80/20 (20 percent had not participated). However, of those interviewed who had participated in an Auction event only 2 said they would not participate in a future event, and in both cases they complained about too much work for not winning.

2. According to your personal understanding, what is the principal goal of the coffee auction?

The vast majority of the respondents said “promoting our country’s or region’s coffee and image” or “promote quality coffee”. Additional comments were, “find the best coffees in the country”, “catalog the quality of our country’s coffee”, “sell our coffee at higher prices (many)”, “introduce the buyers/judges to our country in a direct way”.

3. As far as you know, does your country have other local auctions for coffee? Have you heard of coffee auctions in other countries?

All responded no to the first question, some mentioned familiarity with cattle auctions. The majority responded yes to the second question, mentioning Salvador primarily (*El Salvador appeared to be the most aggressive and successful in local and regional publicity*). The overall impression of those who had heard of coffee auctions in other countries had a favorable impression of the auctions.

4. What kinds of results have you seen 4-6 months after the auction event took place? (After the Auction, have buyers contacted you, or bought additional coffee, or negotiated longer-term contracts, or offered higher prices for some or all of the rest of your coffee?)

Almost all responded that they themselves, and their neighbors, co-op members, etc. were much more cognizant of quality issues, and especially the potential financial rewards of having a quality product. Many commented that it was a big “surprise” to them that they had such good quality coffee, and many of the winners stated they were shocked and pleasantly surprised that they won. Many commented that they didn’t even imagine that their growing area, let alone their country, had such “good quality coffee”.

Only one auction participant interviewed reported that a buyer that they did not know of previously had contacted them, and only a few people stated that they had sold additional coffee as a direct result of their exposure in the Auction event. Numerous participants of the Auctions commented that they had not yet “capitalized” on their placing in the Auction, but that they understood the business of coffee to not be a short range business.

5. What information generated from the competition/auction has been useful to you? How have you used this information?

This question elicited a wide range of responses; both positive and negative. The frequent and predominate very critical comments revolved around the refusal by the Cup of Excellence to divulge specific information related to all the registered buyers in their auction events (the buyers of winning lots were made public).

For participants, the most important information after market contacts were the cupping notes in reference to their coffee sample.

Many of the participants, especially the winners, used the information of the actual buyers (of the winning coffees) to contact them directly (as their contact information was posted on the COE web site). It was reported that only a few cases were successful post-auction sales contacts made, in the sense that some additional coffee was sold, or the buyers in a winners’ coffee displayed additional interest. The majority of responses to this question were that the participants did not use any of the information after the event was finalized.

This will continue to be the case as more small producers have the opportunity to participate in an AMM and avail themselves of this great adventure in democracy. Almost none of them will have the ability to follow on after the auction unless the AMM process is part of an overall marketing strategy and there are others (most likely those with resources, such as cooperatives, co-op unions, exporters, processors, etc.) in the process to carry the torch. This situation lobbies well for an organization such as a trade organization (existing Specialty Coffee Chapters in each country?) that carries on the results of the auctions to a commercial ending, regardless of the winners.

6. What comments or observations have you heard about the competition or auction from your friends, colleagues, and neighbors (whether they participated in the auction or not)?

Most interviewed (auction winners or not) indicated that their friends, relatives, and neighbors were very inquisitive and congratulatory about their participation in the auction event. Those who did not participate remarked that there was a lot of positive excitement about the auction in the market places near their farms, and the local drinking holes, buzz in the sense of interest, excitement, and enthusiasm about the possibilities of selling coffees from their area at better prices.

Other comments were “it’s a crazy thing, it won’t last”, “This is great, we’re going to be rich!”, “We need an Internet auction that sells container loads of coffee”, “It was a revelation to us that we had good quality coffee in our region”

7. What effects or impacts have you seen from the competition/auction in your community, your growing region, or at the national level?

Community: Those farmers/neighbors near a winner were very positive about the Auctions. One winner even reported that they had so many visitors to the farm from local people that they had to take their farm sign down and protect the farm because people wanted seed, and even dug up some coffee trees.

Growing region: the coffee farmers and cooperatives that did not participate in the region where there was a winner consistently reported, “Everyone now wants to get into the auction”.

National: The majority of interviewees commented that the events got good coverage in the newspapers and television.

8. If you had a magic wand, and could change anything you wanted about the competition or auction, what would you change?

As would be expected, this question elicited a huge variety of opinions, as follows in summary:

- eliminate internal buyers,
- improve the cupping (judging) by making it simpler,
- open the Auction up to exporters focusing on estate coffees,
- get more farmers involved, provide more information before the Auction about how it works,
- have 20 winners instead of 10,
- find cheaper transport method for shipping winning coffee to buyers,
- need new mechanism to sell larger lots of coffee (many),
- more sales follow-up 3 and 6 months after the auction to keep selling the remainder of winner's coffee (many),
- adjust the timing of the Auction so that late maturing coffees can enter,
- include international cuppers in the pre-selection process before the final coffee judging (numerous organizers and participants),
- improve the pre-selection process of coffee samples-not clear-not transparent enough-need international representatives involved,
- be very careful in the calibration exercises pre-auction,
- payment to winners for their coffee needs to be fast (1 day to one week was suggested multiple times),
- COE personnel need to come earlier-prepare auction cupping sites earlier-be more prepared,
- improve international publicity-too much in-country publicity-not enough international,
- make the Auction sustainable-donors not here forever,
- COE should figure out why winning bids are mostly Japan and Europe-why are North Americans not buying much in the auctions?
- post auction publicity weak, no additional press releases, no press strategy going into the Auction
- could we have monthly auctions?

Simply put, these answers often show a lack of real understanding of the current AMM systems and/or a desire that the systems actually should be something else, mainly providing a volume market outlet for these coffees.

9. What is your opinion about the integrity and transparency of the competition and auction? What is your level of confidence in the results of the event?

All respondents, except one, indicated that they had a high degree of confidence in the integrity, fairness, and results (winners) of the Cupping Competition and Internet Auctions. The overwhelming majority of those who participated in the Cup of Excellence Auction however, resented and complained about the lack of transparency in the disclosure of information related to the general list of registered buyers in the auctions.

10. After the competition and auction events, have you personally been contacted by people (buyers, etc) interested in any way in your coffee?

To date, there has been very little post auction interest in the winning coffees. Several producers did report however that they had sold some additional coffee (not full lots), and 2 reported being contacted after the auction by potential buyers.

11. Are there any questions that should have been asked, but weren't asked? Would you like to add anything additional to your opinions?

None of those interviewed suggested additional questions, but most did have additional comments:
-Our challenge now is figure out how to keep funding the COE auction.

- We need to be informed of Auctions in the other countries by email
- 2 auctions events per year would be better
- we know the COE auction is not designed to sell all our coffee, but why couldn't it be designed that way?
- COE promotion was good with the public in our country, but the cost of the event way too high for the benefits
- Why aren't the big buyers of coffee participating in the Auction?
- We have learned a tremendous amount about how our coffees are rated by the buyers
- We are unhappy that our Auction was cancelled this year (very large group of growers)
- We want all the information about the registered Auction buyers
- We want to export directly to the roasters, why do we need all these middlemen?
- The Auctions have opened up the window for us so buyers can know what good coffee we have
- People around here don't understand the use of these Auctions, they think they are to sell coffee

[As demonstrated by these questions, Origin indicates that there is little transparency in the COE at least and a profound lack of understanding of the coffee market once the bean leaves origin.]

SOW specific comments and Observations based the views of players at Origin (details are in the body of the report):

What is the level of understanding of the objectives of the Competition-Auctions? In general, the overall understanding of how it works is good. However there are unrealistic expectations that auction winners will sell all their coffee at a higher price, and this is often shared by the winners neighbors and producing region.

What does Origin think purpose and expectations of adopting/using the competition and auction? The stated purpose of the COE Auction is to discover excellent coffees, with a similar perspective from in-country auctions. The expectations at Origin by producers and some exporters is that the activity will result in major sales volumes at higher prices. While Origin players are being patient, they do express varying degrees of frustration that these results have not materialized.

Comment on the appropriateness of the Auction as a international marketing tool for the national cup profiles and traditional markets: As a marketing and publicity tool, the Auctions are getting the word out in an effective manner, although there are some reservations and criticisms about limitations/restrictions placed on the information generated by COE, especially because it is financed in part by donor grants. These criticisms centered on the participants understanding that the COE events (and others) were financed by NGO's and various donor country grants, with the expectation of complete transparency of all information generated during the Auction events.

Comment on the benefits derived from the competition and auctions, including

- exposure in the marketplace: Good publicity but appears to be falling on deaf ears
- resulting commercial interest and sales: Very limited to nil.
- gaining knowledge of markets: Origin knowledge of buyers increasing, but not of market segments.
- training of local (origin) cuppers and improvement of quality related techniques? Outstanding impacts.

Comment on the operating responsibility for the competition and auction: Both Auctions appear to be well run and honest. There is a high degree of donated labor (volunteers or conscripted employees of industry players) and donated monies (international donors) to operate the COE auction. The "in-country" auctions have an even greater degree of volunteerism, and have been producer/industry financed on the whole.

Identify the Origin perceptions of all phases of the Competition and Auctions, including

- selection of international and national cuppers:** no apparent problems or conflicts
- financing options, e.g. proceeds of auction sales:** winners are not happy with payment delays

-use of results for future marketing: COE information is restricted, but producers and exporters often use what is available aggressively. In country auction info is public.

Comment on the usefulness of the competition/auction events: The major usefulness is the very positive impacts on the producers and processors in regards to improved quality. This impact should not be minimized, it is outstanding and even, at the cost level of the COE Auction, the benefits of a new quality orientation and the publicity focused on quality issues is extremely valuable.

Observations based on “local country specific” and Cup of Excellence auctions: The major differences are that the COE auction costs 2-3 times that of a “local” auction. In addition, repeated complaints were heard about the lack of transparency of market information as managed by COE. Otherwise, the primary (quality interest level among producers/exporters) and secondary (influence on cuppers, technicians, etc as to a new orientation of continual quality improvement instead of quality (read defects) control are similar.

What is the interest in an additional Auction platform as proposed by CQI? Few people interviewed outside the organizer/exporter circle had heard of the “Q Contract” or CQI proposed new program.

What are the Origin perceptions of cost/benefit of the different Auctions? The Origin opinions were centered on the high cost and lack of financial sustainability (with out huge donations) of the COE auction. Very few participants (winners) had a clear idea of the real cost of either COE or in-country Auction events.

Conclusions and Recommendations from Origin:

The observations from cupping competition and auctions are:

In Annex 2, Technoserve (Nicaragua) did very complete, professional evaluation of the their COE auction. The consultant carefully reviewed this evaluation, and the observations verified during the interviews in each country. This evaluation assumes and focuses on two items: continued donor financing, and improving the process, not the **MARKETING RESULTS** of the events. For Lessons Learned and general information about the COE auctions, this evaluation is deemed complete and should be reviewed by all the countries using auctions.

- Competitions and auctions for products generate large amounts of interest, excitement, and enthusiasm in the CADR countries.
- Friendly competition (as in the coffee cupping and auction) is an effective and efficacious motivator to improve quality (and therefore ones chance to “win” in the sense of selling at a better price) in CADR.
- The people involved in coffee of CADR enjoy the competitive process, and are good sports about winning and losing, often taking the long view of generalized benefits for their trade, product, and country’s image.
- CADR peoples appear to have an “it’s not if you win or lose, but how you play the game” mentality; therefore lack of transparency (especially restricted access to market and potential buyer information) is not tolerated and causes significant criticism and negative perceptions.
- Tying “winning” to a monetary reward turbo charges the interest and word of mouth publicity of an event in Central America.

- Pride of workmanship is a nearly untapped resource in the CADR countries, as evidenced by the respect, admiration, and positive publicity generated by the Auction events for the winners in the individual countries.

Origin Strategy Recommendations

- The escape from commodity pricing is differentiation based on consumer preferences and tastes. The anachronism of “sellers shape consumer demand” is hogwash. Sell people what they are buying, don’t ask them what they want, and then try to sell them what you have instead.
- Respond to the growing market demand shift to good quality coffees. Lower quality coffees (with similar to higher grown coffee cost structures) below 800-meters in CADR would therefore not be promoted.
- Provide technical assistance as needed to establish the most cost effective competition and quality/volume based auction framework. Cost effectiveness will be most impacted by the VOLUME of specialty coffee sold by using an auction platform. Unless the issue of volume sales at better than commodity prices is addressed, the auction platform will have little positive broad based economic impact on small farmers in the CADR region.
- Continue to support the coffee cupping competition and auction process, but eliminate donor funding for at least the auction portion of the events.
- Focus donor funding for technical assistance and training in the areas of quality improvement all along the origin continuum. This would include training farmers in quality issues, millers, quality technicians (cuppers), etc. The quality orientation *tradition* at Origin is detection and elimination of defects (quality *control*), and not continual quality improvement and identification based on market desires.
- Allow Origin players to be responsible for their own strategies on how to best promote their “special” coffees. Facilitate brainstorming, planning, and strategy sessions with the specialty coffee groups in each country. Provide them with the tools and techniques they can use to come up with their own marketing strategies.
- Coffee Quality Project should continue to act as a catalyst so that the Specialty Coffee groups in each country meet together to form alliances and collaborate on strategies.
- Investigate other e-commerce B2B platforms that deal with commodities (including coffee) such as those below to see how they are handling their market issues.

<http://www.intercommercial.com/>, <http://www.coffee-exchange.com/>,<http://www.egreencoffee.com/>,
<http://www.ecaravan.com/>, <http://www.coffeex.com/>

Annex: 1

Scope of Work COFFEE AUCTION MECHANISMS IN CENTRAL AMERICA An Assessment of an Emerging Market Practice

Position(s)

The names and estimated LOE for each consultant are as follows:

- Technical – Rob Stephen, Six (7) days
- Market – Rob Stephen, Thirteen (13) days
 - One specialist for technical and market for a total of Twenty (20) days
- Origin/Team Leader – Jim Evans, Thirty (30) days

Purpose

Five of the seven countries of the CADR region have had some experience in using an Auction Marketing Mechanism (AMM), including the Cup of Excellence and similar formats. The Coffee Quality Institute is contemplating introducing a new application of essentially the same mechanism. At this point, however, it is not clear as to the benefits of the mechanism in origin or in the marketplace. This evaluation will draw on the experience of all auctions conducted in the CADR region, with the objective of discerning benefits, difficulties and future potential.

Structure of the Assessment

The evaluation will be divided into three areas of focus, and will include analysis and recommendations:

- Technical criteria and applications
- Market perceptions
- Origin perceptions

Specialized consultants will be identified for each area, one of which will be designated as the team leader. The investigation of the AMM will be conducted primarily in each origin country and in the North American market. Complementary investigation may include other markets for CADR coffees in Europe and Japan. Most of the investigation in the first two areas of focus will be conducted in the U.S., whereas that related to origin perceptions will entail visits to each country.

Overview of the Auction Market Mechanism

The AMM contemplates two phases:

- identification and quantification of quality coffees, and
- sale of specific lots of coffee through an Internet bidding activity.

In the CADR region three countries have used the “Cup of Excellence” mechanism and two have instituted an in-country process. The “Cup of Excellence” has been contracted in Guatemala (twice), Nicaragua (twice) and El Salvador (once). Both Costa Rica and Panama have conducted their own auctions, Costa Rica: “Cosecha de Oro” and Panama: “The Best of Panama”, respectively. In all cases, the SCAA Internet auction platform was used for worldwide offering of the coffees selected in the first phase of the mechanism.

The procedures followed in each auction are similar and briefly are:

- a call for samples of coffees to be cupped
- for each sample, a limited quantity of green coffee delivered to a bonded warehouse (quantities usually range from 15 to 75 bags)
- a first elimination of samples by predominantly local cuppers, supervised by one or a few international cuppers, using SCAA cup evaluation standards
- subsequent eliminations using an increasing number/proportion of international cuppers
- a final evaluation of cup quality, where those coffees scoring 80 and above on the SCAA scale are eligible for inclusion in the internet auction
- the auction held over the internet

Scopes of Work for the Three Components

1. Technical Auction Review

The input of the technical consultant will focus on the process of the AMM and its validity for choosing the “best” coffees in origin. The consultant will confer with other experts in the field as needed. It is believed that a minimum of travel will be required. The consultant will consider the following as starting points in his investigation, conclusions and report:

- Comment on the SCAA system for evaluating coffee quality
- Indicate the coffees and markets aimed at in the AMM
- Enumerate the criteria for evaluating and grading coffee samples
- Evaluate selection of national and, especially, international cuppers in terms of:

- Knowledge of origins
- Knowledge of markets
- Type and volume of coffee market represented
- Diversification of cup evaluation criteria represented
- Physical and temporal conditions for sample evaluation
- Transparency and credibility of the mechanism

2. Perceptions of the AMM in the Market

The market segment of the evaluation will focus on the value of the AMM as perceived by perspective buyers and qualifying sellers. The consultant will confer with a variety of players in consuming countries. It is believed that a minimum of travel will be required. The consultant will consider the following as starting points in his investigation, conclusions and report:

- Importance of the AMM to buyers and the extent to which it meets their needs and expectations
- Commercial sales resulting from the AMM: volumes and prices
- Perception of the quality of coffees identified through the AMM
- Reasons for participating or not participating in the AMM
- The AMM as a source of information on quality coffee
- The appropriateness and reliability of the grading system used in the AMM
- Interest in an additional AMM as proposed by CQI

3. Perceptions of the AMM at Origin

Origin countries have adopted the AMM as an independent platform for identifying quality coffees and promoting them in world markets. The consultant will confer with a variety of players in origin countries and, at a minimum, will consider the following starting points in assessing the value and nature of the AMM in origin and in preparing conclusions and the final report:

- understanding of the objectives of the Cup of Excellence and national AMMs
- purpose and expectations of adopting the AMM
- appropriateness of the AMM as a marketing tool for the national cup profiles and perspective and traditional markets
- benefits derived from the AMM, including
 - exposure in the marketplace
 - resulting commercial interest and sales
 - gaining knowledge of markets
 - training of local cuppers and perfection of quality related techniques
- operating responsibility for the AMM
- participation in all phases of the AMM, including
 - selection of international and national cuppers
 - financing options, e.g. proceeds of auction sales
 - use of results for future marketing
- utility of the AMM
- observations on the Cup of Excellence AMM
- interest in an additional AMM as proposed by CQI
- perceptions on cost/benefit of the AMM

Reporting

The Technical Auction expert and Team Leader will report to the Chief of Party, Dr. Michael Schwartz.

Timing and Coordination of the Evaluation

The AMM evaluation will begin on or about July 23rd, 2003. It is estimated that forty-five workdays will be required to submit the final report.

Deliverables

The report will be coordinated, compiled and submitted by the consultant preparing the origin component. The report will consist of the following themes, each theme will start with a brief summary and conclusions, then include each point under each separate theme as mentioned above;

Executive Summary - 1 page; Technical Section - 3 pages; Market Section - 3 pages; Origins Section - 4 pages; Analysis, synthesis, lessons learned, recommendations - 2 pages; Annexes and bibliography - as required.

The final report of the evaluation will be submitted in both English and Spanish no later than 60 calendar days after the initiation of the evaluation, on or about September 30th, 2003.

Annex: 2 Auction Marketing Mechanism-Lessons Learned/Provided by Technoserve/Nicaragua

TAZA DE LA EXCELENCIA NICARAGUA 2002 – LECCIONES APRENDIDAS

Tópico	Lecciones Aprendidas
<p>1. Organización del equipo</p>	<ul style="list-style-type: none"> • Hay que tener dos personas a tiempo completo: En el año 2002 teníamos un equipo amplio de voluntarios. Aunque la participación estuvo buena, tuvimos problemas de coordinación. En el próximo año debemos de tener dos personas a tiempo completo que se dedican a la coordinación del trabajo. Estas personas deben de reportar a una Junta Directiva de unas cinco personas. Deben de ejecutar el trabajo a través de varios comités de trabajo. • Los coordinadores deben de estar en un punto central: En el año 2002, las oficinas de TechnoServe funcionaron como el punto central para los coordinadores y las reuniones de la Taza de la Excelencia. Esto facilitó la comunicación. • Hay que establecer un reglamento interno: Para el próximo año, debemos de establecer un reglamento interno que define la responsabilidad de los coordinadores, los miembros de la Junta Directiva y los miembros de los comités de trabajo. Si alguien no está cumpliendo sus responsabilidades, debemos reemplazarlo. • Hay que mejorar el flujo de información: Debemos de mejorar la comunicación entre los organizadores por un mejor uso del Internet y el correo electrónico.
<p>2. Búsqueda de fondos</p>	<ul style="list-style-type: none"> • Tenemos que rendir cuentas del año 2002: Antes de entrar en la búsqueda de fondos para el próximo año, tenemos que rendir cuentas del año 2002. Podemos hacer esto a través de un pequeño informe a todos los patrocinadores. • Hay que definir categorías de patrocinadores: Antes de acercarnos a patrocinadores potenciales, debemos de definir categorías de patrocinadores (ej., de \$1,000 a \$5,000; de \$5,000 a \$20,000; de \$20,000 para arriba). Esto nos va a ayudar a diferenciar entre los varios niveles de patrocinadores en nuestra publicidad. • La búsqueda de fondos debe de comenzar temprano: En el año 2002, comenzamos muy tarde con la búsqueda de fondos. Para el próximo año, debemos hacer un presupuesto global y empezar la búsqueda de fondos en noviembre de este año. Para hacer el presupuesto global, sería bueno contactar a Guatemala y Brasil. • Podemos tocar otras fuentes también: Podemos ser más creativo en buscar fondos a través del Gobierno de Nicaragua y el SCAA.
<p>3. Comunicación con:</p> <p>a. Productores</p> <p>b. Jurado internacional</p> <p>c. Otros</p>	<ul style="list-style-type: none"> • Hay que responder mejor a las preguntas de los productores: Debemos elaborar un panfleto con las reglas de la competencia y “frequently asked questions.” Además debemos de establecer filiales de la Taza de la Excelencia en el campo. En Jinotega, por ejemplo, SOPPEXCCA podría funcionar como el filial oficial de la Taza de la Excelencia para distribuir información y contestar preguntas de los productores en Jinotega. En Matagalpa, esto podría ser un beneficio o una exportadora. También debemos de mejorar la comunicación con las exportadores y los gremios de café para que nos ayuden a llevar el mensaje a los productores. • Debemos de ayudar a los productores a producir con calidad: Sería bueno dar recomendaciones a los productores sobre como producir un café de excelente calidad. Podríamos hacer esto, posiblemente, a través de La Prensa o El Nuevo Diario. • Hay que tener una persona que se responsabilice por la comunicación con el jurado internacional: El jurado internacional necesita una persona quien les provee la información sobre el evento, quien puede responder a sus preguntas y quien asegure que estén bien durante su semana en Managua. Esta persona debe de hablar inglés. En 2002, nuestra comunicación con el jurado internacional fue un poco difusa. • Hay que planificar menos actividades de noche para el jurado internacional: En el año 2002, planificamos muchas cenas para el jurado internacional. En el próximo año, debemos de planificar algunas noches libres para dejar que los miembros del jurado se descansen. • No hay que ofrecer un “upgrade” de habitación a los miembros del jurado internacional: Debemos de ofrecer un tipo de habitación a todos los miembros del jurado internacional. Si ellos, después, quieren hacer sus arreglos personales, lo deben de hacer por su cuenta. En

	<p>el año 2002, el “upgrade” nos causó alguna confusión.</p>
<p>4. Recepción de muestras y manejo de lotes de café</p>	<ul style="list-style-type: none"> • Hay que controlar que sólo llega una muestra por finca: En el año 2002, algunos productores enviaron dos muestras por finca. En codificar las muestras, PricewaterhouseCoopers quitó una de las muestras. En el próximo año debemos de descalificar todas las muestras de los productores que entreguen más de una muestra por finca. • Debemos de exigir que los productores llenen los formatos: En el año 2002, muchos de los productores no llenaron los formatos con la información de finca. Esto nos causó complicaciones después. Debemos de rechazar las muestras que no vienen con los formatos cumplidos. • Hay que invitar de nuevo a Almagro: Almagro hizo un trabajo muy profesional en el manejo y el control de los lotes del café. Debemos de invitar de nuevo a Almagro. • Debemos de hacer una selección transparente del beneficio seco: En el año 2002, algunas personas se pusieron molestos porque su beneficio seco no fue seleccionado para procesar los lotes del café de la Taza de la Excelencia. Debemos de aclarar los criterios de la selección en el próximo año.
<p>5. Preparación de muestras y catación a. Pre-selección b. Jurado nacional c. Jurado internacional</p>	<ul style="list-style-type: none"> • Podemos simplificar el proceso de pre-selección: Durante la pre-selección, no hay razón de hacer una evaluación muy complicada. Más que todo, los catadores deben de eliminar los cafés con daños y defectos. Se puede hacer esto con menos catadores y con una hoja de catación simplificada. Además, podríamos pensar en hacer la pre-selección en Matagalpa. Tenemos que pensar en como hacemos la pre-selección para llegar a un número de muestras adecuado para la evaluación del jurado nacional. • En la preparación de muestras, hay que preparar el café un día antes de la catación: En el año 2002, a veces trillamos el café el mismo día como la catación. Sin embargo, esto causó complicaciones logísticas. Sugerimos que se haga el trillado fuera del hotel – posiblemente en un beneficio seco con el equipo y el personal adecuado. Después, sugerimos que se haga el tostado en el hotel la noche antes de la catación. • En la preparación de muestras, hay que tener personal dedicado: En el año 2002, a veces los catadores nacionales ayudaron en la preparación de muestras. Sin embargo, esto les distrae de su trabajo principal de catación. • En la preparación de muestras, hay que bajar el tostado: En la preparación de muestras en el año 2002, varias veces aplicamos un tostado demasiado fuerte. Hay que bajar el tostado para que salgan mejor las fortalezas y los defectos de cada muestra de café. • Tenemos que solucionar el problema de hervir el agua para la catación: En la evaluación del jurado internacional tuvimos un problema con la gran cantidad de agua que tuvimos que hervir y echar a las tazas. Entre otros problemas, el hotel no dispuso de suficiente electricidad para hervir tanta agua. Debemos de pensar en hacer esto en una manera más ágil en el próximo año. • Los catadores no deben de catar más de 30 muestras por día: Sale difícil para los catadores catar más de 30 muestras por día. Si catan más, los catadores se cansan demasiado y pierden la precisión. Debemos de tomar esto en cuenta, especialmente para la evaluación por el jurado nacional e internacional.
<p>6. Transparencia y cálculo de puntaje</p>	<ul style="list-style-type: none"> • Hay que mantener el proceso de codificación: En el año 2002, PricewaterhouseCoopers codificó cada muestra antes del tostado. Así, ni los organizadores, ni los tostadores, ni los catadores conocían la identidad de las muestras. Esto aseguró la transparencia. • Hay que invitar de nuevo a PricewaterhouseCoopers: PricewaterhouseCoopers hizo un trabajo excelente y dio mucha credibilidad al evento. Debemos de invitar de nuevo a PricewaterhouseCoopers. • Hay que aclarar quien puede entrar la sala de catación: Debemos de aclarar quien puede entrar en la sala de catación. Además, debemos de establecer bajo cuales condiciones (ej., sólo durante ciertas horas, sin perfume, sin cigarro). • Hay que hacer el cálculo del puntaje en Excel: En el año 2002, usamos varios programas para calcular el puntaje de los resultados de catación. Sin embargo, el próximo año debemos de hacer todos los cálculos en Excel. Excel permite un manejo fácil y flexible de los datos.

	<ul style="list-style-type: none"> • Debemos de tener suficiente personal dispuesto a digitar los resultados: Durante la evaluación por el jurado internacional, se necesita cuatro digitadores para digitar los resultados de la catación.
<p>7. Publicidad, prensa y sitio web</p>	<ul style="list-style-type: none"> • Hay que aumentar el presupuesto para publicidad: Debemos de buscar más fondos para publicidad para salir en más publicaciones (ej., Tea & Coffee). • Debemos de sacar fotos de las fincas ganadores inmediatamente después del evento: Debemos de designar una persona que, inmediatamente después del evento, pasa por todas las fincas ganadoras para sacar buenas fotos y conseguir la información crítica por finca. En este proceso podrían apoyar CaféNica y Eddy Kühl. • Debemos de dedicar una persona a la redacción de la publicidad: Necesitamos una persona para la redacción de notas de prensa, el sitio web y otra publicidad. La persona debe de hacer esto en el español y el inglés. • Debemos de repetir la publicidad que dimos al evento en la conferencia del SCAA: La conferencia del SCAA en Anaheim salió muy bien para dar publicidad a la Taza de la Excelencia y el café de Nicaragua. Debemos de repetir esto el próximo año en Boston.
<p>8. Subasta electrónica</p>	<ul style="list-style-type: none"> • Hay que pensar bien en el número de lotes que van a la subasta electrónica: De los 23 lotes que entraron en la subasta electrónica, algunos lotes casi no se vendieron. Para evitar este riesgo en el próximo año, tal vez hay que pensar en subastar menos lotes – tal vez unos 15. Además, algunos de los lotes eran muy grandes que posiblemente también hizo más difícil la venta. Debemos pensar en bajar el tamaño máximo de los lotes de 200 quintales oro a 100 quintales oro. • Debemos de pensar en como incrementar el número de compradores que participan en la subasta: En el año 2002, se registraron unos 50 compradores potenciales de los cuales participaron aproximadamente 30 en la subasta. Debemos de conversar con Susie para ver como podríamos incrementar el número de compradores que participan el la subasta. • Hay que hacer mejores estimaciones de los volúmenes del café: En el año 2002, habían diferencias importantes entre los volúmenes estimados en la subasta y los volúmenes exportados. En el próximo año, debemos de hacer una estimación de rendimiento por lote cuando estamos preparando las muestras para la subasta electrónica. En el año 2002, el rendimiento de pergamino seco en oro salió parejo a 83 por ciento para todos los lotes. Sin embargo, el rendimiento de oro en oro exportable varió entre 75 y 95 por ciento.
<p>9. Exportación y liquidación</p>	<ul style="list-style-type: none"> • El beneficio seco tiene que hacer un muy buen escogido: En el año 2002, el beneficio seco Bencafé hizo un escogido muy exigente para quedarse con lotes que cumplieron con los requisitos de la preparación especial. Esto es un esfuerzo grande y debemos de tomar esto en cuenta en el próximo año. • Hay que exportar a través de una entidad legal: En el año 2002, tuvimos algunas dificultades porque ACEN, que se encargó de las exportaciones, no tenía número RUC. En el próximo año debemos de asegurarnos de que ACEN cumpla con todos los requisitos legales para poder exportar. • Debemos de revisar los costos de exportación: Debemos de analizar los costos de exportación de ACEN para ver si podemos bajar estos costos en el próximo año.

ANNEX 3: SCAA Cupping Format –sample (click on object to see entire form)



La Asociación de cafés especiales de América Formulario de catación

Nombre: _____

Fecha: _____

Muestra #	El Nivel de tueste	Fragancia/Aroma	Sabor	Acidez	Cuerpo	Uniformidad
		Total: <input type="text"/> 6 7 8 9 10	Total: <input type="text"/> 6 7 8 9 10	Total: <input type="text"/> 6 7 8 9 10	Total: <input type="text"/> 6 7 8 9 10	Total: <input type="text"/> □ □ □ □ □
		Seco Cualidades: Espuma 	Total: <input type="text"/> Sabor Residual 6 7 8 9 10	Intensidad Alto Intensidad Bajo 	Intensidad Alto Intensidad Bajo 	Total: <input type="text"/> Balance 6 7 8 9 10
Notas: _____ _____ _____						

ANNEX 4: IN PRAISE OF THE PURPLE COW

Remarkably honest ideas (and remarkably useful case studies) about making and marketing remarkable products.

From: Issue 67 February 2003, Page 74

By: Seth Godin

Photographs by: Peter Cade

Illustrations by: Bill Mayer

URL: <http://www.fastcompany.com/magazine/67/purplecow.html>

For years, marketers have talked about the "five P s" (actually, there are more than five, but everyone picks their favorite handful): product, pricing, promotion, positioning, publicity, packaging, pass along, permission. Sound familiar? This has become the basic marketing checklist, a quick way to make sure that you've done your job. Nothing is guaranteed, of course, but it used to be that if you dotted your *i* s and paid attention to your five *P* s, then you were more likely than not to succeed.

No longer. It's time to add an exceptionally important new *P* to the list: Purple Cow. Weird? Let me explain.

While driving through France a few years ago, my family and I were enchanted by the hundreds of storybook cows grazing in lovely pastures right next to the road. For dozens of kilometers, we all gazed out the window, marveling at the beauty. Then, within a few minutes, we started ignoring the cows. The new cows were just like the old cows, and what was once amazing was now common. Worse than common: It was boring.

Cows, after you've seen them for a while, are boring. They may be well-bred cows, Six Sigma cows, cows lit by a beautiful light, but they are still boring. A Purple Cow, though: Now, that would really stand out. The essence of the Purple Cow -- the reason it would shine among a crowd of perfectly competent, even undeniably excellent cows -- is that it would be *remarkable*. Something remarkable is worth talking about, worth paying attention to. Boring stuff quickly becomes invisible.

The world is full of boring stuff -- brown cows -- which is why so few people pay attention. Remarkable marketing is the art of building things worth noticing right into your product or service. Not just slapping on the marketing function as a last-minute add-on, but also understanding from the outset that if your offering itself isn't remarkable, then it's invisible -- no matter how much you spend on well-crafted advertising.

This is an essay about what it takes to create and sell something remarkable. It is a manifesto for marketers who want to make a difference at their company by helping create products and services that are worth marketing in the first place. It is a plea for originality, for passion, guts, and daring. Not just because going through life with passion and guts beats the alternative (which it does), but also because it's the only way to be successful. Today, the one sure way to fail is to be boring. Your one chance for success is to be remarkable.

And that means you have to be a leader. You can't be remarkable by following someone else who's remarkable. One way to figure out a great theory is to look at what's working in the real world and determine what the successes have in common. With marketing, it's puzzling though. What could the Four Seasons and Motel 6 possibly have in common? Other than the fact that both companies have experienced extraordinary success and growth, they couldn't be more different. Or Neiman Marcus and Wal-Mart, both growing during the same decade? Or Nokia (bringing out new hardware every 30 days or so) and Nintendo (marketing the same Game Boy for 14 years in a row)?

It's like trying to drive looking in the rearview mirror. Sure, those things worked. But do they help us predict what will work tomorrow? The thing that all of those companies have in common is that they have *nothing* in common. They are outliers. They're on the fringes. Superfast or superslow. Very exclusive or very cheap. Extremely big or extremely small.

The reason it's so hard to follow the leader is this: The leader is the leader precisely because he did something remarkable. And that remarkable thing is now taken -- so it's no longer remarkable when *you* decide to do it.

Stand out from the herd I: Going Up!

Elevators aren't a typical consumer product. They can easily cost more than a million dollars, they generally get installed when a building is first constructed, and they're not much use unless the building is more than three or four stories tall.

How, then, does an elevator company compete? Until recently, selling involved a lot of golf, dinners, and long-term relationships with key purchasing agents at major real-estate developers. No doubt that continues, but Schindler Elevator Corporation has radically changed the game by developing a remarkable Purple Cow.

Every elevator ride is basically a local one. The elevator stops 5, 10, 15 times on the way to your floor. This is a hassle for you, but it's a huge, expensive problem for the building. While your elevator is busy stopping at every floor, the folks in the lobby are getting more and more frustrated. The building needs more elevators, but there's no money to buy them and no room to put them. Walk into the Times Square offices of Cap Gemini Ernst & Young, and you're faced with a fascinating solution to this problem.

Schindler's insight? When you approach the elevators, you key in your floor on a centralized control panel. In return, the panel tells you which elevator is going to take you to your floor. With this simple presort, Schindler Elevator Corporation has managed to turn every elevator into an express. Your elevator takes you immediately to the 12th floor and races back to the lobby. This means that buildings can be taller, they need fewer elevators for a given density of people, the wait is shorter, and the building can use precious space for people rather than for elevators. A huge win, implemented at a remarkably low cost.

Is there a significant real-estate developer in the world who is unaware of this breakthrough? Not likely. And it doesn't really matter how many ads or how many lunches the competition sponsors: Schindler now gets the benefit of the doubt.

The Sad Truth About Marketing Just About Anything

Forty years ago, Ron Simek, owner of the Tombstone Tap (named for a nearby cemetery) in Medford, Wisconsin, decided to offer a frozen version of his pizza to his customers. It caught on, and before long, Tombstone Pizza was dominating your grocer's freezer. Kraft eventually bought the brand, advertised it like crazy, and made serious dough. This was a great American success story: Invent a good product that everyone wants, advertise it to the masses, earn billions.

That strategy didn't just work for pizza. It worked for most everything in your house, including aspirin. Imagine how much fun it must have been to be the first person to market aspirin. Here's a product that just about every person on earth needed and wanted. A product that was inexpensive, easy to try, and promised huge immediate benefits. Obviously, it was a big hit.

Today, a quick visit to the drugstore turns up lots of aspirin and aspirinlike products: Advil, Aleve, Alka-Seltzer Morning Relief, Anacin, Ascriptin, Aspergum, Bayer, Bayer Children's, Bayer Regimen, Bayer Women's, BC Powder, Bufferin, Cope, Ecotrin, Excedrin Extra Strength, Goody's, Motrin, Nuprin, St. Joseph, Tylenol, and, of course, Vanquish. Within each of those brands, there are variations, sizes, and generics that add up to more than 100 different products to choose from.

Think it's still easy to be an analgesics marketer today? If you developed a new kind of pain reliever, even one that was a little bit better than the ones that I just listed, what would you do? The obvious answer, if you've got money and you believe in your product, is to spend everything you've got to buy tons of national TV and print advertising.

There are a few problems that you'll face, though. First, you need people who want to buy a pain reliever. While it's a huge market, it's not for everyone. Once you find people who buy pain relievers, then you need people who want to buy a new kind of pain reliever. After all, plenty of people want the "original" kind, the kind they grew up with. Finally, you need to find the people who are willing to listen to what you have to say about your new pain reliever. The vast majority of folks are just too busy and will ignore you, regardless of how many ads you buy. So you just went from an audience of everyone to an audience a fraction of that size. Not only are these folks hard to find, they're picky as well.

Being first in the frozen-pizza category was a good idea. Being first in pain relievers was an even better idea. Alas, they're both taken. Which brings me to the sad truth about marketing just about anything, whether it's a product or a service, whether it's marketed to consumers or corporations: Most people can't buy your product. Either they don't have the money, they don't have the time, or they don't want it.

And those are serious problems. An audience that doesn't have the money to buy what you're selling at the price you need to sell it for is not a market. An audience that doesn't have the time to listen to and understand your pitch treats you as if you and your product were invisible. And an audience that takes the time to hear your pitch and decides that they don't want it . . . well, you're not going to get very far.

The old rule was this: Create safe products and combine them with great marketing. Average products for average people. *That's broken*. The new rule is: Create remarkable products that the right people seek out.

As I write this, the top song in France, Germany, Italy, Spain, and a dozen other countries in Europe is about ketchup. It's called "Ketchup," and it's by two sisters you've never heard of. The number-two movie in America is a low-budget animated film in which talking vegetables act out Bible stories. Neither is the sort of product you'd expect to come from a lumbering media behemoth.

Sam Adams beer was remarkable, and it captured a huge slice of business from Budweiser. Hard Manufacturing introduced a product that costs 10 times the average (the \$9,945 Doernbecher crib) and opened up an entirely new segment of the hospital-crib market. The electric piano let Yamaha steal an increasingly larger share of the traditional piano market away from the entrenched leaders. Vanguard's remarkably low-cost mutual funds continue to whale away at Fidelity's market dominance. Bic lost tons of market share to Japanese competitors that had developed pens that were remarkably fun to write with, just as Bic had stolen the market away from fountain pens a generation or two earlier.

Stand out from the herd II: Mail Call

Very few organizations have as timid an audience as the United States Postal Service. Dominated by a conservative bureaucracy and conservative big customers, the USPS has an awfully hard time innovating. The big direct marketers are successful because they've figured out how to thrive under the current system, and they're in no mood to see that system change. Most individuals are in no hurry to change their mailing habits either.

The majority of new-policy initiatives at the USPS are either ignored or met with nothing but disdain. But "zip + 4" was a huge success. Within a few years, the USPS was able to diffuse a new idea, making the change in billions of address records in thousands of computer databases.

How? First, it was a game-changing innovation. Zip + 4 makes it far easier for marketers to target neighborhoods and much faster and easier to deliver the mail. The product was a true Purple Cow, completely changing the way customers and the USPS would deal with bulk mail. It offered both dramatically increased speed in delivery and significantly lower costs for bulk mailers. That made it worth the time it took for big mailers to pay attention. The cost of ignoring the innovation would be felt immediately on the bottom line.

Second, the USPS wisely singled out a few early adopters. These were organizations that were technically savvy and that were extremely sensitive to both pricing and speed issues. These early adopters were also in a position to sneeze the benefits to other, less astute, mailers.

The lesson here is simple: The more intransigent your market, the more crowded the marketplace, the busier your customers, the more you need a Purple Cow. Half-measures will fail. Overhauling the product with dramatic improvements in things that the right customers care about, on the other hand, can have an enormous payoff.

Why There Are So Few Purple Cows

If being a Purple Cow is such an effective way to break through the clutter, why doesn't everyone do it? One reason is that people think the opposite of remarkable is "bad" or "poorly done." They're wrong. Not many companies sell things today that are flat-out lousy. Most sell things that are good enough. That's why the opposite of remarkable is "very good." Very good is an everyday occurrence, hardly worth mentioning -- certainly not the basis of breakthrough success. Are you making very good stuff? How fast can you stop?

Some people would like you to believe that there are too few great ideas, that their product or their industry or their company simply can't support a great idea. That, of course, is absolute nonsense. Another reason the Purple Cow is so rare is because people are so *afraid*.

If you're remarkable, then it's likely that some people won't like you. That's part of the definition of remarkable. Nobody gets unanimous praise -- ever. The best the timid can hope for is to be unnoticed. Criticism comes to those who stand out.

Playing it safe. Following the rules. They seem like the best ways to avoid failure. Alas, that pattern is awfully dangerous. The current marketing "rules" will ultimately lead to failure. In a crowded marketplace, fitting in is failing. In a busy marketplace, not standing out is the same as being invisible.

In *Marketing Outrageously* (Bard Press, 2001), author Jon Spoelstra points out the catch-22 logic of the Purple Cow. If times are tough, your peers and your boss may very well point out that you can't afford to be remarkable. There's not enough room to innovate: We have to conserve, to play it safe. We don't have the money to make a mistake. In good times, however, those very same people will tell you to relax, take it easy. There's not enough need to innovate: We can afford to be conservative, to play it safe.

So it seems that we face two choices: Either be invisible, uncriticized, anonymous, and safe or take a chance at true greatness, uniqueness, and the Purple Cow. The point is simple, but it bears repeating: Boring always leads to failure. Boring is always the riskiest strategy. Smart businesspeople realize this and work to minimize (but not eliminate) the risk from the process. They know that sometimes it's not going to work, but they accept the fact that that's okay.

Stand out from the herd III: The Color of Money

How did Dutch Boy Paint stir up the paint business? It's so simple, it's scary. They changed the can.

Paint cans are heavy, hard to carry, hard to close, hard to open, hard to pour, and no fun. Yet they've been around for a long time, and most people assumed that there had to be a reason why they were so bad. Dutch Boy realized that there was no reason. They also realized that the can was an integral part of the product: People don't buy paint, they buy painted walls, and the can makes that process much easier.

Dutch Boy used that insight and introduced an easier-to-carry, easier-to-pour, easier-to-close paint jug. "Customers tell us that the new Twist & Pour paint container is a packaging innovation that was long overdue," says Dennis Eckols, group vice president of the home division for Fred Meyer stores. "People wonder why it took so long for someone to come up with the idea, and they love Dutch Boy for doing it."

It's an amazing innovation. Worth noticing. Not only did the new packaging increase sales, but it also got them more distribution (at a higher retail price!).

That is marketing done right. Marketing where the marketer changes the product, not the ads.

Why It Pays (Big) to Be a Purple Cow

As the ability to be remarkable continues to demonstrate its value in the marketplace, the rewards that follow the Purple Cow increase. Whether you develop a new insurance policy, make a hit record, or write a groundbreaking book, the money and satisfaction that follow are extraordinary. In exchange for taking the risk, creators of a Purple Cow get a huge upside when they get it right.

Even better, you don't have to be remarkable all the time to enjoy the upside. Starbucks was remarkable a few years ago. Now they're boring. But that burst of innovation and insight has allowed them to expand to thousands of stores around the world. Compare that growth in assets to Maxwell House. Ten years ago, all of the brand value in coffee resided with them, not with Starbucks. But Maxwell House played it safe (they thought), and now they remain stuck with not much more than they had a decade ago.

Once you've created something remarkable, the challenge is to do two things simultaneously: One, milk the Purple Cow for everything it's worth. Figure out how to extend it and profit from it for as long as possible. Two, build an environment where you are likely to invent an entirely new Purple Cow in time to replace the first one when its benefits inevitably trail off.

These are contradictory goals. The creator of a Purple Cow enjoys the profits, accolades, and feeling of omniscience that come with a success. None of those outcomes accompany a failed attempt at a new Cow. Thus, the tempting thing to do is to coast. Take no chances. Take profits. Fail to reinvest.

AOL, Marriott, Marvel Comics, Palm, Yahoo -- the list goes on and on. Each company had a breakthrough, built an empire around it, and then failed to take another risk. It used to be easy to coast for a long time after a few remarkable successes. Disney coasted for decades. Milton Berle did too. It's too easy to decide to sit out the next round, rationalizing that you're spending the time and energy to build on what you've got instead of investing in the future. So here's one simple, tangible suggestion. Create two teams: the inventors and the milkers. Put them in separate buildings. Hold a formal ceremony when you move a product from one group to the other. Celebrate them both, and rotate people around.

Stand out from the herd IV: Chewing my own cud

So, how does an author get his new book to stand out from all of the other marketing books? By trying to create a remarkable way to market a book about remarkable marketing. How? By not selling it in stores. Instead, a copy of the book version of *Purple Cow* is available for free to anyone reading this article. You pay for postage and handling (\$5), and Fast Company will send you one copy of the book-length version of this article for free (visit www.fastcompany.com/keyword/purplecow67 for details). How does this pay? Visit the site and I'll show you [my entire marketing plan](#).

What It Means to Be a Marketer Today

If the Purple Cow is now one of the *P*s of marketing, it has a series of big implications for the enterprise. In fact, it changes the definition of marketing. It used to be that engineering invented, manufacturing built, marketing marketed, sales sold, and the president managed the whole shebang. Marketing, better called "advertising," was about communicating the values of a product after it had been developed and manufactured.

That's clearly not a valid strategy in a world where product attributes (everything from service to design) are now at the heart of what it means to be a marketer. Marketing is the act of inventing the product. The effort of designing it. The craft of producing it. The art of pricing it. The technique of selling it. How can a Purple Cow company not be run by a marketer?

Companies that create Purple Cows, such as JetBlue Airways, Hasbro, Poland Spring, and Starbucks, *have* to be run by marketers. Turns out that the CEO of JetBlue made a critical decision on day one: He put the head of marketing in charge of product design and training as well. It shows. JetBlue sells a time-sensitive commodity just like American Airlines does, but somehow it manages to make a profit doing it. All of these companies are marketers at their very core.

The geniuses who managed to invent 1-800-COLLECT are true marketers. They didn't figure out how to market an existing service. Instead, the marketing is built into the product -- from the easy-to-remember phone number to the very idea that MCI could steal the collect-call business from the pay-phone companies.

But isn't the same idea true for a local restaurant, a grinding-wheel company, and Citibank? In a world where anything we need is good enough and where just about all of the profit comes from the Purple Cow, we must all be marketers.

You've got a chance to reinvent who you are and what you do. Your company can reenergize itself around the idea of involving designers in marketing and marketers in design. You can stop fighting slow growth with mind-numbing grunt work and start investing in insight and innovation instead. If a company is failing, it's the fault of the most senior management, and the problem is probably this: They are just running a company, not marketing a product. And today, that's a remarkably ineffective way to compete.

Sidebar: 10 ways to raise a purple cow

Making and marketing something remarkable means asking new questions -- and trying new practices. Here are 10 suggestions.

1. Differentiate your customers. Find the group that's most profitable. Find the group that's most likely to influence other customers. Figure out how to develop for, advertise to, or reward either group. Ignore the rest. Cater to the customers you would choose if you could choose your customers.
2. If you could pick one underserved niche to target (and to dominate), what would it be? Why not launch a product to compete with your own that does nothing but appeal to that market?
3. Create two teams: the inventors and the milkers. Put them in separate buildings. Hold a formal ceremony when you move a product from one group to the other. Celebrate them both, and rotate people around.
4. Do you have the email addresses of the 20% of your customer base that loves what you do? If not, start getting them. If you do, what could you make for them that would be superspecial?
5. Remarkable isn't always about changing the biggest machine in your factory. It can be the way you answer the phone, launch a new brand, or price a revision to your software. Getting in the habit of doing the "unsafe" thing every time you have the opportunity is the best way to see what's working and what's not.
6. Explore the limits. What if you're the cheapest, the fastest, the slowest, the hottest, the coldest, the easiest, the most efficient, the loudest, the most hated, the copycat, the outsider, the hardest, the oldest, the newest, or just the most! If there's a limit, you should (must) test it.
7. Think small. One vestige of the TV-industrial complex is a need to think mass. If it doesn't appeal to everyone, the thinking goes, it's not worth it. No longer. Think of the smallest conceivable market and describe a product that overwhelms it with its remarkability. Go from there.
8. Find things that are "just not done" in your industry, and then go ahead and do them. For example, JetBlue Airways almost instituted a dress code -- for its passengers! The company is still playing with the idea of giving a free airline ticket to the best-dressed person on the plane. A plastic surgeon could offer gift certificates. A book publisher could put a book on sale for a certain period of time. Stew Leonard's took the strawberries out of the little green plastic cages and let the customers pick their own. Sales doubled.
9. Ask, "Why not?" Almost everything you don't do has no good reason for it. Almost everything you don't do is the result of fear or inertia or a historical lack of someone asking, "Why not?"
10. What would happen if you simply told the truth inside your company and to your customers?

Sidebar: Now *That's* Remarkable

Schindler Elevator Corporation

When is a bank of elevators more than a bank of elevators? When it's smart enough to tell you which elevator will provide the quickest ride to the floor you need to reach. A product *that* smart changes how people move, how buildings get designed - and how companies, in this case Schindler Elevator Corporation, market their innovation.

Tombstone Pizza

It's good to be first with an innovation that the world is hungry for. Ron Simek learned that lesson when he launched the first successful line of frozen pizza. The product was a hit. Kraft bought it and advertised like mad. The rest is history. Of course, 40 years later, introducing another brand of frozen pizza seems less appetizing. Me-too products lead to also-ran companies.

U.S. Postal Service

The runaway success of "zip + 4" might give new meaning to the term "going postal." This simple innovation makes it quicker for the Postal Service to deliver mail, easier for marketers to target neighborhoods, and cheaper for marketers to send bulk mail. But the innovation would never have taken hold without savvy marketing by an organization not famous for its savviness.

Contributing editor Seth Godin (sgodin@fastcompany.com) has written some of Fast Company's most influential articles, from "Permission Marketing" (April : May 1998) to "Unleash Your Idea Virus" (August 2000). This essay is adapted from his forthcoming book, *Purple Cow: Transform Your Business by Becoming Remarkable* (Do You Zoom, February 2003). The book is available only at www.Apurplecow.com and other select locations. Visit www.fastcompany.com/keyword/purplecow67 for information on how you can qualify for a free copy of the book.



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ANNEX 5: TEA AND COFFEE Trade Magazine articles.

Brazil Internet Coffee Auction Results

The real question remaining is whether the success of this experience can be duplicated? The cost of this grand experiment was enormous. There were seven non-profit or governmental organizations involved along with hundreds of volunteer hours. Steve Colten, a juror in Lavras and a successful bidder, expands this concern: "The time, money, and effort is of colossal importance. People have to understand, especially the sellers, that future operations like this won't have the resources thrown at them like the first go around. We have to understand that creating a framework to first find and then ensure the best qualities will not come easily nor cheaply."

Alf Kramer, executive director of the Specialty Coffee Association of Europe and a Lavras juror sees another side of the future: "Through this process and the results we have been given new vision, new opportunities, and now momentum for coffee quality. It is now the time to use the wisdom, increase the momentum, and create even more winners in our battle for quality. The responsibility is on our shoulders. The good and excellent coffees are obviously there. If we buy them and use them, there will be more."

The specialty farmers in Brazil agree. Marcelo Vieira of the BSCA promises that these results have brought about a renewed and enthusiastic commitment to the quest for quality. He feels "these results demonstrate that for truly outstanding coffee the price levels set by the C contract are irrelevant."

Joaquim Leite, export director for Cooxupe-Santos adds to these thoughts: "An initiative such as this can motivate our producers to improve even more the quality they produce. We have already included the auction in our internal newspaper, which reaches at least 7,000 farmers. Our hope is that Americans will start paying more attention to our finest quality which are well appreciated in Germany, Finland, Norway, Italy, and Japan."

The SCAA sees the auction as a beginning for future innovations within the industry. As Ted Lingle, executive director of the Specialty Association of America explains, "I think we can claim success in the execution of the Brazil Auction not principally from the results - although they were indeed in line with our original aspirations - but from the extraordinarily valuable lessons learned and the very exciting prospects gained through conducting the auction."

The resources available to isolate and present high quality coffee, to plan and execute the myriad logistical requirements of the auction, and to utilize the technical infrastructure will determine whether this success can be duplicated. But maybe the real story lies in the exciting realization that the future for truly unique coffees may not look anything like the past.

When the Wright brothers flew for the first time, there were only a handful of curious onlookers - some believers, and some skeptics. In the end, their short bounce off the ground wasn't a success because the airplane flew very far, but because suddenly everyone believed in the possibilities.

Susie Newman Spindler is marketing consultant for The Gourmet Project. Her coffee experience began with the Coffee Development Group where she managed many of its programs. Her experience includes marketing and strategic planning for a wide variety of companies. She is knowledgeable about land use and sustainability issues, having also worked with the wildlife sector in Montana.

Her company, SNS Communications is located in Missoula, Montana and she can be reached either by telephone (406) 542-3509 or e-mail at: susie@montana.com. She claims "I am not the only Susie in Montana and, yes, I find bears in my backyard."

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Annex 5 con't:

Coffee and Tea Reports from the Front Lines

Guatemala Online Auction Yields High Prices for Coffee

GUATEMALA - Guatemala's National Coffee Association (ANACAFE) reported that the average price for coffee sold at its First Cup of Excellence Internet Auction of Guatemalan Exceptional Coffees was US\$3.94 per pound - more than \$2.30 above current spot futures prices.

Encouraged by the results, Anacafé said its goal is to decrease future dependence on prices fixed as a regular commodity and to encourage Guatemala's production of exceptional coffees. Recently, its board of directors has focused on new marketing alternatives that emphasize quality as opposed to plentiful supply as a product advantage, it said.

But although the lots up for sale during the Internet Auction fetched prices higher than those available on the Coffee Sugar and Cocoa Exchange, organizers emphasized that the event does not represent a definitive solution to the crisis affecting the coffee growers.

"The results shouldn't generate false expectations since the First Guatemalan Internet Auction was designed as a pilot program and only the 15 top producers are participating from among large, medium and small growers," said Anacafé's president Manfredo Töpke. "The selected coffees are those that scored the highest among 200 samples from throughout the country, and were graded by 21 internationally renowned experts during the First National Exceptional Coffee Contest. The selection process guarantees transparency for the buyer throughout the whole process."

Tea & Coffee - August/September 2001

ANNEX 6:

Selling Coffee Over the Internet Part I

by **Suzanne Brown**, Tea and Coffee Magazine

New sites such as <http://www.coffee-exchange.com/> and <http://www.intercommercial.com/> are offering green buyers and sellers new online opportunities. These enterprises will help smaller farmers who have had difficulty bringing their crops to market have a vehicle to sell coffee. In turn, these exchanges offer buyers opportunities to make quick selections at competitive prices.

Exchanges and auctions are fast maturing. Last year, we experienced the power of the coffee auction held in Brazil. Now there are many web sites executing sophisticated technology that will deliver on-line trading, communications and the latest worldwide news reports. According to Forrester Research, Inc., trade via real-time models including those known as "auctions" and "exchanges," will reach \$746 billion in 2004. As eMarketplaces evolve, firms will move beyond today's simple, ad hoc purchases toward configuring online markets for each transaction - trading across product attributes and giving special attention to preferred partners.

How will this affect commodities like coffee and tea? The Forrester report shows that eMarketplaces will expand their trading practices and deals will materialize and evaporate with one click. Therefore, traditional processes for finding suppliers and negotiating long-term contracts will change. Due to the new set of suppliers available at every transaction, buyers will need to establish a set of criteria to automatically evaluate new suppliers. Let's look at two pioneer exchanges that will help initiate change in trading coffee.

Based in Costa Rica, Rodrigo Fernandez, founder of www.Coffee-Exchange.com, has created a medium that will facilitate trading in all sectors, from commercial to specialty. As of this report, Fernandez said there are no fees to participate in the site's online services and this policy will remain in effect indefinitely. "Our main goal is for the industry to get to know us and what online coffee trading is all about," said Fernandez. In an effort to explain his site to the industry, Fernandez gave a presentation titled, "Coffee Trading By Mouse Click" during the 12th ECF European Coffee Congress and Exhibition held June of this year in Bremen, Germany. In his presentation, a chart illustrated the dramatic growth in worldwide Internet usage. Canada and the U.S. are in the forefront, followed by Europe, Asia and the Pacific, Latin America, Africa and the Middle East. By 2005, there will be an estimated 350 million people worldwide using the Internet. He mentions the e-commerce advantages for consumers include instant gratification, no mobility, private and 24/7 availability; and for vendors, there are fewer outlets, decrease in payroll and inventory efficiency. In buying and selling coffee online, Fernandez offers the following benefits: global exposure, expanded markets, sharper competition, less intermediation, better product comparison and lower costs per transaction.

Presently, offers to buy and sell are beginning to appear on the coffee exchange and some have placed coffee lots for auctioning. These offers will increase as more people become aware of the site. "The actual trading occurs between both parties involved and [management at coffee-exchange] never interferes in the transaction. The trading can be measured by the traffic and numbers of offers to sell and buy that are posted," said Fernandez.

When asked how the Costa Rican location might affect communications or marketing, Fernandez emphatically responded, "We're on the Internet! Distances and places do not exist here. This is a new international marketplace; coffee traders are scattered throughout the globe and this is the right medium to serve them. Technically, our servers are placed in two different locations in the U.S., hooked to the main Internet backbones by several T3 lines, which guarantees they are always online. Eventually we will mirror our sites in Europe and in other languages," he reported. As part of our marketing efforts, we are planning to go anywhere in the world where coffee traders can utilize our web site."

Having been funded by several private investors from the coffee industry, in addition to the coffee trading area, the site covers coffee jobs, equipment sales and news. Other options to be introduced include an instant messaging system and customized home pages. Asking how importers might check the coffee for quality and site investigation, Fernandez responded, "Traders will still order samples as always, but rest assured, if technology ever develops a way to sample and taste coffee over the Internet, we'll be there." Fernandez is a "techie," having graduated with a degree in engineering from Tulane University. He said that he is investigating plans to launch a tea site.

Another online coffee exchange scheduled for debut at press time is InterCommercial Markets, located at <http://www.intercommercial.com/>. The portal site is an online exchange dedicated to providing Internet-based trading, information, and communication services to the physical commodity markets, targeting green coffee, cocoa, and sugar as the first 3 markets to be launched. According to Michael J. Corcoran, executive vice president of business development, the goal is to create a site, which attracts the eyes of each industry on a daily basis. The physical trading component will be the major attraction, but the content and communication features give industry players additional reasons to spend time on the site. The green coffee site is targeted at exporters, producers, dealers and brokers of green coffee, as well as traders in coffee futures.

Commenting on the company strategy, president and chief executive, Ted A. Heilman, Jr. said, "Our strategy of partnering with leaders in the industry we serve enables us to adapt our exchanges and services to the specific customized requirements of each market." The New York-based company was founded by industry leaders with years of commodity and technology expertise and has strong backing from its strategic partners, Mercon Coffee Corporation and E.D.&F. Man Holdings, two leading multinational players in commodity trading groups. Recently, Brown Brothers Harriman & Company, one of the oldest lenders to the commodity market, has taken an equity stake in InterCommercial. They are the first "outside" investors in the new company. When asked about fees, Corcoran said the service would be free for everyone for an undetermined number of months, providing ample opportunity for prospective users to become acquainted with the system and experience for themselves the benefits of membership.

For producers, Corcoran said the site basically replicates and enhances the current methods of doing business in the coffee market. Buyers and sellers still pick and choose whom they want to do business with on a transaction-by-transaction basis. So, as long as current buyers or sellers are members of the InterCommercial community, you can do business with them via the Internet rather than by phone or fax. The potential visibility which the site affords to both buyers and sellers should provide an excellent means to expand one's list of prospective counterparts over time, he added. There is nothing required in being licensed to trade other than registering as a member, but trading partners will still be responsible for deciding with whom they will trade. Corcoran said transaction time for making a buy or sell would be more efficient than the traditional method. "What will change is the speed, ease, and cost at which buyers and sellers will exchange their pricing ideas with a larger number of prospective counterparts," he added.

Marketing the site entails a mixture of traditional communications as well as new media. Trade shows, industry publications, personal visits and demonstrations, and e-mail campaigns are some of the targets. "The wonderful thing about the Internet is that anyone with access will be able to visit the site and check out the product. We also hope that industry participants that choose to take an investment stake in InterCommercial will assist in promoting widespread acceptance of the product by encouraging the parties that they do business with to become members."

While the current focus is on business-to-business (B2B) the company does not rule out some links to other sites with a more business-to-consumer (B2C) orientation.

Once the site is functioning, there will be two sources of news initially, "Futures World and their own internally produced content, which will be more in the way of analysis and insight as opposed to breaking news. The communications features of the system will include instant one on one chat, an internal (to InterCommercial Markets) e-mail system, group forums like those which have developed covering the equity markets and a group chat capability allowing numerous users to exchange ideas simultaneously in a real-time environment.

Certain functions like the display of future prices will employ a technology that constantly "pushes" the information onto the user's screen without the need for hitting a "refresh" button in order to update the information. Currently there are six people working for the company, three full time employees as well as a team of seven outside software developers working on the project.

TechKnowledgey Buzz welcomes your ideas. Please contact senior column editor/online editor Rosanna Mazzei at editor@teaandcoffee.net, and/or column author Suzanne J. Brown at s.brown@teaandcoffee.net.

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Tea & Coffee - August/September 2000

Part II: Commodity Exchanges

by Suzanne Brown

In Part Two of Techknowlegy Buzz's venture into the new world of business-to-business (B2B) commodity exchanges we continue our exploration of unique business models. Not only do exchanges offer buyers and sellers a new media for trading, they offer the benefits of reduced costs and increased efficiency and provide access to greater revenue opportunities. And all these services spell competitive advantage.

It is important to note that online exchanges and auctions are separate concepts, although they both operate on similar platforms. An auction is, in essence, a concept which may be executed in a non-nuclear manner and needs not rely on set clients or transactions. An exchange is an extension of this concept, and has a fixed, screened alliance pool which makes up its foundation and has a set structure for business transactions.

Founder and president of eCaravan.com, Tim Sanchez, notes, "Surplus and spot supply can be traded efficiently in real time with an auction model, while supply can be posted and traded at a set price on the exchange with no time limit." Sanchez is building an online trading platform for commodities including coffee, cocoa, orange juice, sugar and wine. The web site will service each commodity with individual sections containing in-depth reports, statistics and information. Sanchez told Tea & Coffee Trade Journal that eCaravan.com started as a general portal for the international trade business-to-business marketplace. Further research revealed that focusing on the coffee industry in Latin America would prove to be a stronger move initially, so Sanchez decided to specialize in creating an exchange for that niche.

The concept of an exchange, however, is not a new one. Perhaps the oldest exchange for the coffee and tea industries is <http://www.coffeex.com/>, which has been on line for two years. "The exchange model," explains founder Irshad Sideeka, "allows participants to create offers for sales and requests for purchase, and bids can be made on the sale offers and offers can be made on the requests for purchase."

Sideeka was raised on a coffee plantation in southern India. This experience combines perfectly with his background in software consultancy. He is now preparing to launch a second, updated version of his exchange. Sideeka points out that easier means of accessing information are making users more apt to participate in auctions, and any such step toward trust-building and user-friendly approaches is key in this line of business. "The easy availability of voice and video at any trading web site and the access to each others' information will develop," adds Sideeka. "Initially, the participants of every hub will be insecure about each other and as time progresses this will change as people within the marketplace will have each others information."

Of significant importance is that global transactions are being facilitated by the Web, stimulating the evolution of a global marketplace. The web site eGreenCoffee.com provides the seller, regardless of size, with a direct line to this developing marketplace. Coffee and tea growers or exporters in Latin America or Southeast Asia can use exchanges as a means to cost-effectively reach roasters in North America, Europe and Japan. Additionally, eGreenCoffee.com provides a standard platform on which to improve communication and to access current market data.

To its fame, eGreencoffee.com has signed over 150 members who are registered anonymously. Users “are adapting easily to the system because we built it to mimic the traditional way coffee is traded,” comments c.e.o. and president Hanif Moledina, a 16-year industry veteran formerly with Bean (East) Corp./Unicof USA, Inc.

Chief marketing officer Dimple Ahlwalia elaborates: “Buyers instantly receive multiple offers from pre-approved partners instead of making numerous calls to gather information. As a result, they spend more time on strategic activities and strengthening personal relationships that are critical in the green coffee industry.”

Each coffee exchange mentioned appears to have many of the same services, but with slight differences. Yet, keeping ahead of advances can prove to be a huge challenge in the world of the Web. How will these firms remain competitive with the rate of success for an internet company at a grim 10%? At this point, Sideeka says that client trust in the medium and its potential is still the main focal point., which is why they still use the bulletin board model; it will soon merge into a new transactional model, to be live and functioning through a protected environment.

He adds that coffeex.com will continue to strive for innovation and improvement of the current modelwork while concentrating on expansion of industry-affiliated programs starting with the NYBOT (New York Board of Trade) and LIFFE (London Futures Exchange) contracts.

At eCaravan.com, the plan is to stay ahead through phased implementation of value-added, quality services, tools, functionality and information specific to the coffee industry. Enhancements such as complex, financial analysis and information tools, supplier back- end systems integration for real-time inventory and customized interfaces for members are examples of improvements planned for their exchange.

Sanchez says, “It has always been our vision not to impose a solution but to build something along with the members of the coffee industry....We believe our solution is about enhancing relationships, not technology....We [intend to] provide deep content and enhancements at no cost, including integration into their back office systems to provide closed-loop transactions.” With field operations in Sao Paulo, Rio de Janeiro and logistics operations in Miami, eCaravan.com is scheduled to launch in November with headquarters in San Francisco.

With so many innovations and rapidly improving mechanisms for transactions, security and privacy is a strong and exchanges must meet those security needs. At eCaravan.com members will be provided with anonymous, encrypted-transaction trading via a secure online platform with select, pre-qualified buyers. The company is a private, independent entity that will not resell or share confidential member information.

As of now, it is eGreenCoffee.com that has implemented all the latest features that have been developed for exchange models in the e-commerce sector. Ahlwalia says that eGreenCoffee.com maximized information security by using policies and the state-of-the-art cryptography of Verisign, a respected name in online security services. Secure Sockets Layer (SSL) encryption used on their site ensures data privacy. As a result, when members visit web pages that request or present sensitive information, such as credit card numbers, the system encrypts the data to prevent third parties from accessing it in transit. “SSL encryption is a proven method of security,” says Ahlwalia.

With information technology (IT) products and services that provide more efficient sales, what is the value of these web sites for the coffee industry? “Better liquidity for the seller and better procurement opportunities for buyers,” states Sideeka. “We want to accomplish trade without having great barriers across international borders. The information to buyers and sellers are

available within seconds throughout the world. Most importantly, the exchange allows people to have a better understanding for the physical price of coffee," he added.

Ahlwalia says the B2B online exchange is bringing the \$68 billion coffee industry into the internet economy with an easily accessible, common platform that replicates the current trading process while greatly improving its efficiency. EgreenCoffee.com is also a single source for industry information, including futures quotes, weather updates, market alerts and news.

Finally, the standards for trading coffee are in print, but what about specialty? There are still no standards set in place for making those trades as premiums differ from country to country. Yet, as the internet evolves and e-commerce sites create transactional systems to meet these growing needs, the question that now lingers is which exchange will be first to effectively trade the highest grades of coffee in the world?

Please send your comments and ideas to Rosanna Mazzei, Techknowledgey Buzz editor, at editor@teaandcoffee.net, and to columnist Suzanne J. Brown, president and owner of SJB Associates. SJB Associates is a marketing consulting business in Atlanta, Georgia. Brown specializes in projects for the coffee and tea industries and has published articles on these topics since 1980. She can be reached at Tel: (770) 988-8811 or Fax: (770) 988-0087.

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