



COFFEE TRADING AND DISTRIBUTION BUSINESS – PROSPECTS INTO ITS ENTERPRISE FEASIBILITY: A LITERATURE REVIEW PAPER

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Abstract

This paper is aimed to explore the viability of a coffee trading and distribution business in turning it to a feasible business organization. This study is enjoined to bring into account the current condition of the country's coffee industry in the light of bridging the various gaps in business towards a more responsive and globally competitive industry favourable to its particular customers and beneficiaries. It reviewed articles from 2011-2021. The review focused its emphasis on the findings and conclusions of the articles reviewed. The paper revealed that there is a promising notion for a business of trading and distributing coffee products to be established and sustained. Along with the promising prospects of it being lucratively profitable and sustainable, There are also trade-offs that need to be addressed for failure in doing so could spell failure in business operations. The veritable information garnered about coffee trading and distribution in this study to be used by coffee owners could provide awareness of the survivability and sustainability coffee businesses that currently in operation or yet to be established. With an overall knowledge about the industry, coffee shop owners, traders, and distributors could better appeal to customers in their marketplace as they can adopt these insights to increase better or sustain sales. The potential social change benefits from the proposed study include sustained employment of the coffee shop employees, coffee traders, and coffee distributors alike which can improve self-worth and human dignity for employed individuals and business owners. Outcomes from this paper would helpful in hiring more employees. Also, increased business and employment may result in more tax revenues for communities, which can help citizens and the in extension, the national economy.

Keywords: coffee business, trading and distribution

INTRODUCTION

Coffee production in the Philippines had been around for about four centuries. To date, the industry is at its current production volumes of 37,000 metric tons (MT), with an area of 117,454 hectares (ha), and an average yield of 300 kilograms (kg) per hectare. Basing on these data, it can be inferred that coffee, after production, can be a lucrative business once it had been traded and distributed. Though prospects are promising, we need to consider the concept of survival and failure in business with as much weight as the stability and profitability of the same, albeit not desired. It is essential to any business entity, more so with small business, to tackle the issue of its survival.

Business failure is an issue with small businesses on a global scale (Hyder & Lussier, 2016). Fang He, Sirén, Singh, Solomon, & von Krogh, 2018; Hsu, Wiklund, & Cotton (2017) opined that it is an occurrence with the termination of participation in a commercial undertaking because it has not met a minimum threshold for economic survival expected by the business proprietor. Alford & Page, (2015), Lottfzadeh & Shamsi (2015), and Nguyen, Newby, & Macaulay (2015), collectively posits that some prevailing issues that small business owners have in this regard is their lack knowledge of business administration including marketing strategies and technology to survive in small business settings. Moreover, some business owners do not have a well-balanced entrepreneurial aptitude, both in cognition and practical know-how which greatly affects business acumen and decision-making skills in steering the business in a feasible and profitable direction (Estioco, 2020).

DISCUSSIONS

Rationale on Investing in Coffee

A sizeable portion of the population love coffee as a beverage and as a health drink with antioxidants that fight free radicals. For a farmer, coffee is a lucrative business and provides livelihood to many. The Philippines, being an agricultural country in most parts, it is an ideal place to grow quality coffee. The Philippines remain to be one of the world's top exporting countries. The production of dried coffee berries from January to March 2021 was recorded at 19.35 thousand metric tons or an increase of 12.4 percent compared with the 17.22 thousand metric tons output in the same period of 2020. However, according to PSA's consolidated data, local coffee's production is decreasing by 3.5% per year over the past 10 years, while the Philippines' coffee consumption from 2014 to 2015 increased by 8.8% as evidenced in ICO's more recent reports in the 2nd quarter of 2021.

The coffee, though considered to be not the country's major produce, is still regarded as a valuable crop nonetheless, as supported by Republic Act (RA) No. 7900, An Act to Promote the Production, Processing, Marketing and Distribution of High-Value Crops, Providing Funds, therefore, and for Other Purposes defines high-value crops (HVC) as crops other than traditional ones which include coffee. In its declaration of policy, it states that the declared the policy of the State to accelerate the growth and development of agriculture in general, enhance productivity and incomes of farmers and the rural population, improve the investment climate, competencies and efficiency of agribusiness and develop high-value crops as export crops that will significantly augment the foreign exchange earnings of the country, through an all-out promotion of the production, processing, marketing, and distribution of high-value crops in suitable areas of the country.

At the end of the target term in 2022, it is expected that the coffee growers have increased their average yield of 1 ton per hectare, supplied the needed volume of 214,626 MT with self-sufficiency level from 41.60% to 160.16% and have increased farmers' income and farm productivity. With these above stated facts and figures, the coffee industry is poised to be a thriving endeavour more so in the years to come, bolstering the business opportunities to further abound.

The Situation of the Coffee Industry Today

The main producers of coffee in the country are located in Mindanao, comprised mostly of small farmers. SOCCSKSARGEN was the top coffee producer with 6.97 thousand metric tons output or 36.0 percent share to the total production for 2Q 2021. Other major players include Northern Mindanao and Davao Region with shares of 14.5 percent and 12.2 percent, respectively. The four varieties grown are: Robusta which accounts for 69% of production, Arabica (24%), Excelsa (6%) and Liberica (1%).

However, the country's coffee supply is not enough. An average farm size for the majority of coffee farmers have is one to two ha, with most farms owned by the farmers themselves. Coffee is not the sole crop being planted, as it is common practice in most farms to be intercropped with vegetables, coconut, fruit trees and forest trees (especially in the case of Arabica coffee farms). As most of the farmers are not focusing on a full-blown manner of planting and cultivating coffee, commercial scale plantations in the country are very few in number.

Further, there are local small and medium coffee processors of roasted beans and ground coffee in the country. The largest soluble coffee is Nestle Philippines, Inc., located in Cagayan de Oro, which accounts for 80% of the instant coffee market, followed by Universal Robina Corporation and Commonwealth Foods Corp.

The continuous drop in production was caused by various factors such as (1) the increasing number of coffee growers transitioning to planting other crops, (2) maturation of coffee trees with little or no rejuvenation that jeopardizes optimal yield or harvest, (3) poor farm practices in terms of knowledge on appropriate coffee technology, (4) the aging farmers demographic, (5) difficulty in the procurement of certified planting materials, and (6) difficulty in accessing credit. Coffee production was only 36,171 MT of green coffee beans in 2015, tantamount to average farm yields of only 0.30 tons per hectare.

Global estimated number of coffee harvested according to another International Coffee Organization (ICO) study was 144.8 million or 8.668 million tons of 60-kg bags of coffee produced in 2015-2016, with an was also an estimated increase of 1.6 percent in global coffee production in the same period. The common practice in the industry is that farmers market coffee to small processors, large coffee manufactures, and as well as to specialty coffee shops. These buyers in turn process coffee into variants such as green coffee beans (GCB), roasted, ground, and instant.

In a study conducted by Orzaes (2011), local and imported coffee brands in the country include Nescafe, Café Puro, Great Taste, Blend 45, Jimm's, Kaffe de Oro, Koffie, Folgers, G7, Good Day, Grandeur, Kopiko, San Mig, and Vinacafe. Nestle Philippines, Inc. (NPI) enjoys around 80% of volume sales from supermarkets, groceries, convenience stores, drug stores, sari-sari stores, and the like in 2010 (Euromonitor, June 2012). NPI purchases around 80% of domestic production.

Further, locally-made ground coffee brands available manufactured by entrepreneurs, mostly operating on a small scale. Most of these small-scale producers had derived their brand names from the place where they are being produced. Likewise, there are notable local and foreign specialty coffee chains, quick service restaurants, donut shops, pastry stores, teashops and hotels offer coffee in their menus. Most casual to fine dining restaurants serve coffee as well.

There are a number of key institutions and programs that support the coffee industry, hailing from both government departments and private sectors alike. The monitoring of such programs is spearheaded by the Philippine Council for Agriculture and Fisheries (PCAF), while the lead coordinator of coffee production and farm expansion projects and other high value crops development programs is the DA's High Value Crops Development Program. Stakeholders in the coffee industry are eventually being dominated by women entrepreneurs, making them active role players in coffee processing and marketing. The participation of women is also prominent in other areas of the value chain such as harvesting/picking, sorting, grading and packaging and in networking.

While the government agencies serve as the policy maker and implementer for the coffee programs, the private sector likewise provide demonstration farms of coffee as part of its corporate social responsibility program. Also, they give free trainings on coffee production, post-harvest, gap and rejuvenation to improve coffee farming. Some major suppliers of coffee seedlings and are also engaged in the production, processing, and marketing of coffee. Technical assistance and credit programs likewise are being rolled-out by coffee stakeholders and serves as promotion initiatives. Also, there are programs that develop coffee farmers into coffee entrepreneurs through education, training, coaching and mentoring.

Challenges and Growing Pains

According to Fombrun, Ponzi, & Newburry (2015), business success is the terminology used to describe proprietors of business that had achieved entrepreneurial success, through the resourcefulness of the same. Proprietors can be considered successful when they had maintained a customer-focused strategy in addition to the quality/price ratio of its products and services. This is the goal of every business endeavour, but it is somewhat difficult for the coffee industry as like with other industries, there are pain points that need to be taken action upon to ensure continuance of its operations.

Competition is stiff. While products can be differentiated, such monopolistic competition market structure runs thin. The local farmers are not being given much needed assistance, and foreign brands take a significant chunk of the market. It's not just having a great product, maintaining consumers' loyalty is a key, for this significantly contributes to the long-term sustenance of a business (Utami, Bayani, & Eprilisanti, 2018). Coffee shop operators and related business experienced higher customer loyalty because of higher service quality. Further, Marek (2014) stated that small business owners, because of the limited geographical market coverage of small-to-medium size enterprises wherein they normally operate, could more easily focus on promoting their brands and customer loyalty than larger competitors. It is not necessary that you have high quality ingredients and affordable-priced products. You need an effective marketing strategy that ties all aspects of business operations to make the endeavour a success.

Businesses nowadays, at whatever size, need to forge a connection to its customers. Building up to the notion of customer loyalty, business owners could benefit from reaching out and incorporating customer feedback into product development and service delivery. According to Harmeling, Moffett, Arnold, & Carlson (2017), customer engagement marketing is a company's strategy to incorporate and measure customer contributions including feedback into its marketing functions. They had further asserted that customer engagement goes beyond the immediate economic transaction, to incorporate voluntary word of mouth blogging and to provide customer ratings for a product or service.

As digitalization and use of robotics and automation is becoming the new normal in conducting business, proprietors need to keep up. Alalwan, Rana, Dwivedi, & Algharabat (2017), posited that customers use various social media platforms to evangelize their own experiences with more customers. Researchers group social media platforms into four main functional categories, namely: creativity, relationship management, entertainment, and newsgathering. Electronic word of mouth had more reach than the traditional word of mouth sharing of product or service experience (Hudson, Huang, Roth, and Madden, 2016). Both the business owner and customers can utilize social media platforms function as a medium of creativity, content creation, and customer engagement. The inclusion of social customer relationship management resulted in ongoing customer engagement. The essence of customer engagement also incorporates customer contributions to product development

and offering (Russo, Confente, Gligor, and Autry 2016). Further, customer engagement incorporates the level of connectedness among customers and employers (Kumar and Pansari, 2016).

On the other hand, the effectiveness of customer engagement marketing depended on the company's ability to identify and leverage customer-owned resources to contribute to the company's overall marketing strategy objective (Hollebeek, Srivastava, and Chen, 2016). Moreover, Gupta et al. (2018) stated that customer feedback avenues include surveys (one-on-one, telephone, online), customer forums, and social media. However, it is challenging to find objectivity in the feedback as customers usually indicate their personal and subjective insight of satisfaction and importance. Customer engagement with a brand via social media including reading and re-posting content was a part of the reciprocal responses of grateful consumers and a sense of belonging to the brand community (Simon and Tossan, 2018).

Kotler and Keller (2016) posited that business owners should begin to adopt an integrated marketing mix of digital communication which aligned with the uniqueness of the e-commerce marketplace in response to how the customers behave. According to Lamberton & Stephen (2016), Small businesses are using digital marketing tools to provide products and services directly to current and potential customers. In all stages of the production, trade, and distribution, technology and favourable customer feedback go hand in hand in order to facilitate a smooth operating coffee business, across all types of entities.

Current and Emerging Market Trends

It is evident that coffee consumption is all-encompassing in the whole country as there are many Filipinos in every socio-economic stratus who are regular coffee drinkers. They usually drink coffee during breakfast to start their respective days and for social occasions to unwind and meet with friends. 3-in-1, 5-in-1, 7-in-1 sachets are the coffee types most consumed. These are soluble coffee or single-served instant coffee mixes which offer easy preparation time and value for money. Price per sachet varies depending on the composition of the mix, usually ranging from 5.00 to 12.00 PHP.

The instant coffee sachets are widely available and distributed thru sari-sari stores, eateries, convenience stores, groceries, and supermarkets. Market leader Nescafe has an estimated 80% share, while the other local and imported brands account for the rest of the market. Over the years, the market of coffee shops steadily increase as these establishments are considered not just places in buying coffee, but also serve to be a congregating area for people who want to socialize, have business and casual meetings, and even study for stretches of time. Nowadays, there is a growing market of retail third-wave (barista, preparation focus) and fourth wave (roaster innovation-roast types, on demand roasting, home roasting etc.) in most coffee establishments. The clientele that usually patronizes these are young professionals and more financially capable individuals who want to relax and catch up with friends and business associates.

The growing consumption of coffee consequently increased the demand for the same as restaurants, fast food chains, donut shops and hole-in-the-wall eateries also serve coffee. Evidently, the coffee industry sees promising growth as it gears up to address increasing domestic demand in the future and to participate in the global market. Likewise, the emergence of more coffee shops is highly expected as Filipinos have embraced the "over a cup of coffee" social interaction with family, friends and business associates.

CONCLUSION

Qureshi, Aziz, & Mian (2017), hold the opinion thereof that an understanding of the strategic and competitive environment may impact the development of a business owner's marketing capabilities and in turn, may lead to an effective marketing strategy. Proprietors could create value for the customer through customized marketing strategies to drive their satisfaction, loyalty, and profitability, resulting in higher rates of business success (Kumar & Reinartz, 2016). Marketers must obtain concise information about their customers' preferences as input into strategic marketing decisions. Pogorelova, Yakhneeva, Agafonova, & Prokubovskaya (2016) believe that obtaining concise information about customers' set of preference, the marketer could revise the traditional marketing mix of product, price, place, and promotion components to align with the customers' gravitation towards the e-commerce marketplace. Ultimately, the importance of implementing service quality and service delivery components impacting customer service must be highlighted in order for any business undertaking, may it be coffee or other, achieve feasibility and eventual profitability. (Prayag et al., 2016).

Business Practice Contribution

The veritable information garnered about coffee trading and distribution in this study to be used by coffee owners could provide awareness of the survivability and sustainability coffee businesses that currently in operation or yet to be established. With an overall knowledge about the industry, coffee shop owners, traders, and distributors could better appeal to customers in their marketplace as they can adopt these insights to increase better or sustain sales.

Socioeconomic Implication

The potential social change benefits from the proposed study include sustained employment of the coffee shop employees, coffee traders, and coffee distributors alike which can improve self-worth and human dignity for employed individuals and business owners. Outcomes from this paper would helpful in hiring more employees. Also, increased business and employment may result in more tax revenues for communities, which can help citizens and the in extension, the national economy.

ABBREVIATIONS

DA	-	Department of Agriculture
FAO	-	Food and Agricultural Organization
GCB	-	Green Coffee Beans
HVC	-	High Value Crops
ICO	-	International Coffee Organization
PCAF	-	Philippine Council for Agriculture and Fisheries
PSA	-	Philippines Statistics Authority

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