

Analyzing of Potential Market of China for Ethiopian Coffee

Eskinder Asfaw Bantiwalu, Asfaw Yilma Demisse

School of Management, Wuhan University of Technology, Wuhan, P.R.China, 430070

(E-mail: eskinder_2001@yahoo.com, Asfity333@yahoo.com)

Abstract After analyzing the opportunities and challenges of Chinese market by using secondary data, this paper finds that the population of China (1.3 billion), the increasing demand of Coffee in China (30% per year), the fastest growing of Chinese Economy (an average rate of 10% per year since 1990) and the purchasing power of the people are the key indicators of Chinese potential market for all coffee exporter countries in general and for Ethiopia in particular. Therefore, doing a specific in-depth market research, identification of the best distribution channels, implementation of market entry strategy, distinguish how to increase market share, and establishing strong supply chain system is the best strategg drawn in this paper in order to get into the Chinese coffee market for Ethiopian Coffee exporters.

Key words Ethiopian coffee production; Chinese growing coffee demand; Chinese potential market for coffee

1 Introduction

Coffee has enormous economic, social and environmental significance in Ethiopia. It represents an important part of Ethiopia's foreign exchange earnings, tax income and gross domestic product (Gole, T.W. et al, 2002). Coffee also directly supports the livelihoods of more than 25 percent of the population, and is at the centre of social and family life (Roussel, B. and Verdeaux, F. 2007). Despite its distinctiveness and reputation for excellence, Ethiopian coffee has been sold as a commodity like most coffees worldwide traditionally. In the past, sharp declines in the world price have thus reduced Ethiopia's national income and severely affected its coffee farmers that are increasingly using the land for other monoculture crops. Due primarily to these changes in land use, at one point it was estimated that Ethiopian highland forests would disappear by 2015 (Tadesse, W.M. et al, 2001). Ethiopian coffee is undifferentiated in the market; higher incomes will do little to help counter the trend to maximize profits by manipulating coffee forests into quasi-industrial plantations with nonspecific production, and introduced varieties and know-how.

Also a number of terms used in the coffee trade on the basis of the districts where the coffee is grown, such as Harar, Sidamo, and Yirga Chaffee, have become known to consumers over the past years for their unique flavor profiles. According to the Ethiopian Coffee Network, the reputation of these coffees is the result of the hard work of generations of Ethiopian coffee farmers. In Ethiopia after the dramatic collapse of coffee prices, as well as the development of an increasingly 'grey' coffee market, the government bolstered control of its prized industry through a series of new government mandates in 2008. The new legislation is primarily designed to regulate the buying and selling of coffee by requiring all sales be conducted through the Ethiopian Commodity Exchange (ECX). In 2009, beyond the regulatory issues, there were additional challenges for Ethiopian coffee. Pesticides found their way onto the packaging and thus Japanese buyers, the number one buyer of Ethiopian coffee (purchases 20% of exports), instituted a ban on Ethiopian coffee when they discovered pesticides on packing bags. However this problem already solved.

Thus, Ethiopia continues to produce quality coffee to the international market. Now the question is how Ethiopian coffee can penetrate into different global markets like China. Since the population of China is over 1.3billion it is a huge market if possible to get in. Recently there is a growing coffee demand in China. This is one of the best opportunities to notice. For this reason, this survey focuses on analyzing of Chinese potential market for Ethiopian coffee.

2 Coffee Demand and Market Analysis in China

Coffee consumption in China is highly concentrated in large cities such as Beijing, Shanghai and Guangzhou. Also other cities like Wuhan coffee culture seems to expand. Recently coffee appeals to adventurous young, rich, and urban consumers. This is just because originally coffee is considered as a Western concept to most Chinese consumers. According to Subhuti (2003), the Chinese do not consume coffee because of its potential health value either in terms of modern medical data or traditional Chinese

medical concepts. Rather, it has been consumed until now as part of the fascination with western culture that has grown during the past few decades, particularly after the anti-Western campaigns of the Maoist regime. However the coffee culture is getting well known in China nowadays. Chinese coffee consumers are more exposed to Western influences and tend to look up to Western lifestyles. Manufacturers have targeted Westernized young professionals as the main target market for coffee. Another large consumer group, which influences the coffee consumption, is returnees. China has many returnees (mainland Chinese students returning from Western countries) over the last ten years. Many of these returnees have lived in Western countries for a decade and they have become accustomed to the coffee culture. Upon their return to China they have carried on living in this fashion. Foreign expatriate also comprise a large proportion of coffee consumers in China.

According to Hope Lee (2004), China's high growth economy and improved investment has attracted substantial foreign direct investments, which has led to rapid increases in the number of ex-pats. Shanghai's official statistics show that the number of Taiwanese living in Shanghai for short periods (at least three months) is estimated at 230,000. The figure is expected to increase each year. Ex-pats are at the high-end of coffee consumption and are also regular patrons of cafés. It is reported that Westerners and businessmen from Hong Kong and Taiwan represent 30% of customers at chained cafés such as Starbucks. Qiao Yi (1998) in his report mentioned that many decades ago, coffee culture in Shanghai was much more sophisticated than instant coffee. In the 1930s, when Shanghai was named as a "paradise for adventurers," Western restaurants and cafes grew rapidly in the town that nurtured the city's first generation of coffee lovers. Also Takada and Suzuki (2009) in their journal report mentioned that the number of coffee roasting companies in China has increased to 30 from 25 a year earlier as sales rise to consumers in Shanghai and other coastal cities.

Total volume sales of coffee in China grew by nearly 90% between 1998 and 2003, to 6,504.5 tones. Domestic production of coffee beans also expanded rapidly. China Agriculture Yearbook reports that China produced a modest figure of 3,573 tons of coffee beans in 1997, but by 2000 this had risen to 11,568 tones. The United States Department of Agriculture (USDA) estimated that this figure had risen to 13,000 tons by 2001. The expanded local production of coffee beans coupled with the low price of green coffee in international markets has contributed to the reduction of the retail price of coffee in China. This situation encouraged investment in coffee, which in turn resulted in a higher visibility in the retail market, particularly in large cities. The level of publicity and media interest in coffee also notably increased.

China doubled its on-trade coffee consumption between 1998 and 2003. This is a mostly urban phenomenon with most rural areas largely untapped. On-trade sales of coffee mainly go through three types of establishments: coffee shops/cafés (independent and chained), Internet cafés and fast food restaurants. Euro monitor's figures show that chained coffee shops, such as Starbucks and Manabe (Japanese style café); saw spectacular growth in unit sales, up by 814% between 1999 and 2009. Starbucks stands as a statement of modern lifestyles and affluence in today's China. The company has opened over 90 outlets in the country. However, Starbucks faces increasing competition from other foreign players. The Chinese coffee market is highly consolidated, with multinationals controlling the market. Nestlé was the first multinational to establish a coffee processing plant in China. Nestlé's Nescafé brand is a long-running favorite in the instant coffee sector in China and Nescafé has now become a generic name for coffee. In 2002, Nestlé accounted for 46% of retail value sales. The company runs continuous above-the-line and below-the-line marketing and promotional campaigns in the country. Kraft is trailing Nestlé considerably, holding a 20% share in 2002. Multinationals have made a positive contribution to the development of the Chinese coffee industry with both Nestlé and Kraft utilizing domestically grown coffee to supply the local market. Nestlé also sent technical staff to the Yunnan province (one of the major coffee-producing provinces in China) to help growers produce coffee beans which meet their own production requirements.

The Chinese coffee market is expected to grow by 70% in total volume sales between 2003 and 2008 to reach 11,073 tones. Euro monitor findings show that, within Asian countries, affluent consumers with a high degree of Western influence are more likely to accept a coffee culture (Hope Lee, 2004). According to Sprcoffee.com (2010) there are approximately 200 million potential coffee consumers in China, which would potentially put China on a par with the major coffee consumer. The coffee market is growing by 30% annually. In contrast, coffee consumption worldwide is growing at an annual rate of only 2%. In the future China has the potential to become a major coffee-consuming country. As a consequence, the coffee industry and coffee shop operation represent highly promising blue sea business areas. This show that The China Coffee Market has endless Potential thus, China will play a pivotal role

in the world coffee industry's future strategies.

3 Ethiopian Coffee Product and Market Overview and Analysis

In Ethiopia there are about 331,130 peasant coffee farms and 19,000 in state farm. There are also seven major coffee growing regions in the country: Harar, Sidamo, Yirgacheffe, Limmu, Jimma, Lekemt, Bebeke. Also Ethiopian coffee considered the 2nd in Africa and seventh in the World (See Table 1 below).

Table 1 Ethiopian Coffee Growing Regions and Production Rank (2009)

Major Coffee Growing Regions	Rank in Production
1. Harar	<ul style="list-style-type: none"> • 1st in Africa • 7th in the World
2. Sidamo	
3. Yirgacheffe (in Sidamo)	
4. Limmu	
5. Jimma	
6. Lekemt	
7. Bebeke	

Similarly when we see Ethiopian coffee production since 2003 we can notice a tremendous growth. That is the total production shows a significant growth 3874 (2003), 4568 (2004), 4003 (2005), 4636 (2006), 5733 and (2007) (See Table 2 below). Also over 60% of the coffee produced in Ethiopia today is prepared for export. Given the rising demand for coffee worldwide, Ethiopian coffee production has grown at a compound annual rate of 10% from 2003 to 2007.

Table 2 Ethiopian Coffee Production (000s 60kg/bags)

Year	2003	2004	2005	2006	2007
Domestic consumption	1833	1833	1833	1833	1833
Exportable Production	2041	2735	2170	2803	3900
Total Production	3874	4568	4003	4636	5733

Note: (1 bag = 60 kg) of coffee annually

On the other hand, unlike the Western society Ethiopians are crazy about coffee. Domestic consumption of coffee in Ethiopia is about 1.83 million kg every year whereas the exportable production is increasing every year (See Figure 1, below).

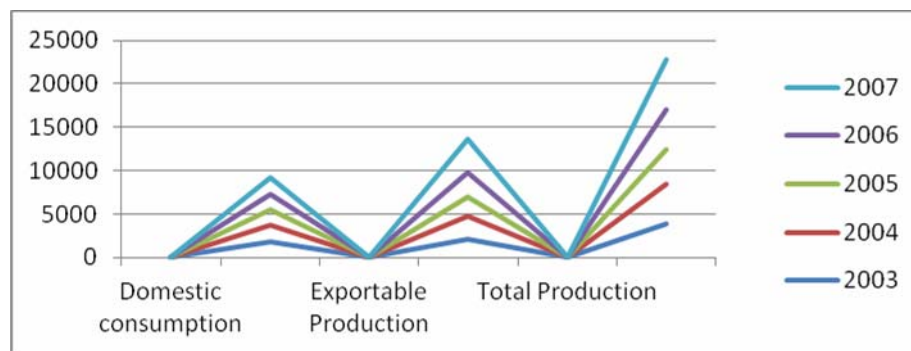


Figure 1 Ethiopian Coffee Total Domestic and Exportable Production (2003-2007)

It is obvious that the world coffee consumption is growing. Likewise, countries are trying to produce quality coffee product to the world market. And this definitely creates competition among coffee exporters. Unlike the natural and manmade problems which easily affect the coffee market, competition on international market is one of Ethiopia problem faced in the last decades. However, since 2000 Ethiopian share of World Coffee export market is growing significantly (See Table 3 and Figure 2 below consistently).

Table 3 Ethiopian Share of World Exports

Year	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08
Value	2.5%	3.5%	3.0%	3.7%	4.0%	3.7%	3.7%	4.8%

Here, to find the average annual share of World coffee export market we can see the difference from 2000/1-2007/08. That is

$$\{[3.5\% - 2.5\%] + [3.0\% - 3.5\%] + [3.7\% - 3.0\%] + [4.0\% - 3.7\%] + [3.7\% - 4.0\%] + [3.7\% - 3.7\%] + [4.8\% - 3.7\%]\} = \{1\% + -0.5\% + 0.7\% + 0.3\% + -0.3\% + 0\% + 1.1\%\}$$

Therefore, average Ethiopian World Coffee Export market = 0.32%

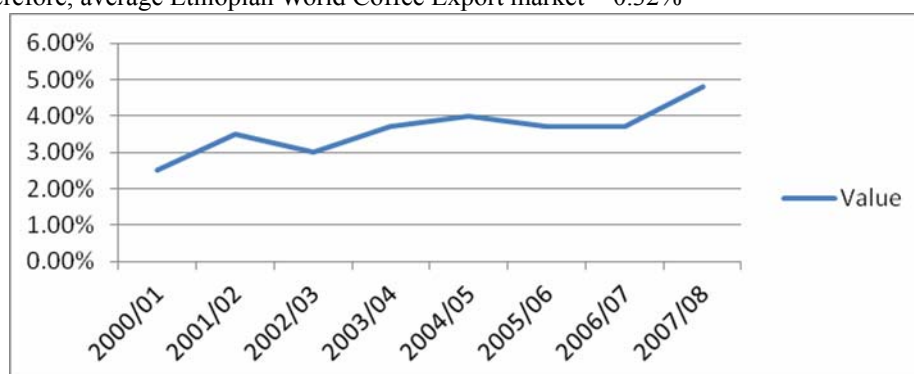


Figure 2 Ethiopian Shares of World Exports

As shown in Table 3 and Figure 2 above, the annual average Ethiopian share of world coffee export market is growing approximately 0.32%. This is not, of course, enough to say excellent but it shows there is a better future in the market.

4 Findings

As Chinese annual report shows, China's economy grew at an average rate of 10% per year during the period 1990~2004, the highest growth rate in the world. China's GDP grew 10.0% in 2003, 10.1%, in 2004, and even faster 10.4% in 2005. That is the best opportunity we notice here. The Chinese coffee demand also increased by 30%. Likewise the purchasing power of the people is increasing dramatically. These are the best opportunity for Ethiopian Coffee exporters to join Chinese market. Also it is so important to evaluate the key success factors in the industry and the suitable competitive advantage of the business (See 4.1 and 4.2 below).

4.1 Market opportunities in China

- Total population of China (1.3 billion)
- Increasing demand of Coffee in China (30% annual) Vs (2% world)
- The fast Growth of Chinese Economy
- The purchasing power of Chinese People
- A positive change of Chinese buying behavior

4.2 Favorable conditions for ethiopian coffee

- Increasing the quality and quantity of the coffee (More of Organic)
- The home land of Coffee (reputation)
- Technology Development (Apply modern technology on the coffee preparation process)
- The Traditional Coffee Ceremony (Advertising through the traditional coffee ceremony of Ethiopia)
- Strong supply chain system (better supply chain in Ethiopia through ECX)

There are four key market variables: product, price, promotion and sells. These four variables are highly interlinked when we deals about market penetration. And here they considered as the key strategy to get in to the Chinese coffee market. When we take 'product' as the key variable, that is to say the quality of the coffee process from plantation to the expected final destination and its being organic should be highly considered.

In general, the Chinese market offers great business opportunities due to its rapid economic growth and huge market; however, it has its fair share of challenges, ranging from inadequate market data,

inappropriate entry strategy, lack of access to sales channels, difficulty in finding the right partners and cultural differences.

5 Conclusions

At present, China has already become one of the potential consumption markets for the coffee manufacturer. In addition, Chinese government has been consciously guiding the transformation of China from the “world production center” into a combination of “production center” and “demand center”. However, foreign enterprises often found it is difficult to formulate their entry strategy in Chinese coffee markets based on their past experiences in the face of special local market environment. Therefore, analysis of possible sales channels, analysis of potential risks, formulating potential risk control, and screening of distribution partners based on the Chinese business culture is so important.

References

- [1] Aya Takada, Ichiro Suzuki. Chinese Coffee Demand May Increase 20% Annually, Marubeni Says[EB/OL].
- [2] Dharmananda, Subhuti, et al. Coffee in China and the Analysis of Coffee According to Traditional Chinese Medicine[J]. Institute for Traditional Medicine, Portland, Oregon, 2003
- [3] Gole TW, Denich M, et al. Human Impacts on the Coffea Arabica Genepool in Ethiopia and the Need for Its in Situ Conservation[M]. Oxon: CABI Publishing, 2002: 237–247
- [4] Hope Lee. Market Trends Global: Coffee Brews a Future in China [EB/OL].
- [5] P. Roussel, B. & Verdeaux, F. (Editors). Biodiversity and Local Ecological Knowledge in France[D]. INRA, CIRAD, IDDRI, IFB, France, 2007: 224–228
- [6] Qiao Yi. Putting More Beans into China's Coffee Culture[J]. Shanghai Today, 1998(6) (In Chinese)
- [7] Tadesse Woldemariam Gole, Demel Teketay, et al. Diversity of Traditional Coffee Production Systems in Ethiopia and Their Contribution for the Conservation of Coffee Genetic Diversity[C]. Proceedings of the Conference on International Agricultural Research for Development, Deutscher Tropentag - Bonn, 2001:9-11