

## Q&A: Coffee Intangibles

by Dan Bolton

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*Daniele Giovannucci, president of the Committee on Sustainability Assessment and Luis F. Samper with 4.0 Brands in Bogota, Colombia, teamed up with Brazilian researcher Luciana Marques Vieira to publish a United Nations financed report on the powerful role of intangibles in the coffee value chain.*



Luis F. Samper

“There are valuable opportunities for producer origins to create new value and generate the conditions to sustainably improve livelihoods”; that is the conclusion of a new paper co-authored by Daniele Giovannucci, director of the Committee on Sustainability Assessment (COSA) based in Italy and the US, Brazil’s Luciana Marques Vieira at FGV (Fundacao Getulio Vargas - Escola de Administracao de Empresas) and Luis F. Samper, founder at 4.0 Brands.

The work was commissioned by the World Intellectual Property Organization (a UN body) and made public as part of its flagship global report released biannually.

In the paper, the authors review the volume and value of major coffee market segments, their challenges and emerging solutions to grow value and distribute it more equitably. The report concludes that there is ample opportunity to use intellectual property much

more effectively to create new value and create the conditions for producer origins to reap appropriate benefits and establish a level of empowerment within supply chains that they currently do not have in most cases.

***STiR:** What can be done to alter the current scenario where farmers take much of the risk and receive only limited rewards for growing specialty coffee?*

**Samper:** First is to understand that the evolution of coffee as a commodity in the last century has permitted widespread market penetration and lower market costs but has also led to the steady decline of distinctive characteristics and the diversity of coffees around the world. If that trend continues, it is likely that many of the uniquely interesting coffees that still exist today will be gone in just a few decades due primarily to the dual pressures of unsustainable prices and climate change that make coffee farming less viable for many. We may thus lose a very valuable source of future value.

In our paper, we underline that in typical market-driven value chains, where coffees and suppliers are easily interchangeable it is easy to lose distinctions that can grow value. Industry now finds the need to ensure long-term supply to ensure growth, which can open up possibilities of mutual inter-dependence between suppliers and industry to even create valuable long-term collaborations. These collaborations have the chance to be successful if farmers and coffee origins develop the intrinsic values of their production systems. This is best done via their own intangibles in terms of regional, collective or individual brand equity and origin content that authentically communicates the diversity, and embedded knowledge or quality inherent in sustainable farming techniques.

***STiR:** Is this suggested route consistent with current market trends?*

**Giovannucci:** Yes. Third wave coffees are having a tremendous influence in the industry, even beginning to affect conventional brands and mass-market channels. Single origin coffees are now available at higher price points and the content behind these offerings needs to be competently handled for both marketing and reputation management purposes. As business opens to much greater consumer awareness, many industry players are progressively understanding that they can better participate in future growth with more sound approaches to their sometimes stodgy procurement strategies which may thus need to be re-



Daniele Giovannucci

assessed to also function as partnership strategies. This is especially true if greater sustainability or responsible sourcing practices are part of the objective.

*STiR: How you can tell if this is already happening?*

**Samper:** Brands that created their reputation from the commodity approach and the art of blending are now integrating single origin offerings. Nescafe and Nespresso are examples of this trend. Starbucks launched its Reserve line that also focuses on single origin coffees. Clearly, moves by big coffee conglomerates buying smaller third wave brands is another example. Even mainstream actors such as Walmart and McDonalds are much more engaged with origins and now actively focus on sustainability. Our organizations 4.0 Brands and COSA are very different and yet we both see – as we independently work with a broad array of leading organizations, that they are engaging more in not just quality but also transparency and a more useful knowledge of their supply chains. They are not only addressing causes of future risk but also anticipating the evolution of business to satisfy emerging consumer expectations.

*STiR: How can this suggested strategy achieve a significant impact?*

**Samper:** Markets for differentiated goods have a thirst for information and are already having an impact. Most analysts predict they can grow considerably. From individual farmers at one end and baristas at the other end, the coffee world is already achieving new value that can be replicated through coffee origin strategies that match individual brand strategies and values. Developing origin narratives that are authentic and, at the same time, fit into a brand's purpose and story-telling is the next phase of coffee partnerships that may well begin the decline of an obsolete coffee procurement paradigm that captures but does not create much mutual value. Of course, narratives have to be substantiated and impact needs to be measured because it cannot be just stories either. Fortunately, it is not difficult to do and the technology to do that is now here. We are quickly going beyond the outdated idea of compliance checklists, it is about living data that adds knowledge and value to all the stakeholders all the way to the consumer. Its building origin and brand equity with meaningful, evolving, and long term partnerships that can really accomplish significant mutual impact and even achieve consumer loyalty.

*STiR: What can coffee brands do?*

**Samper:** Many coffee brands, particularly first wave brands, are finding that they are less relevant in this new context. Some will become obsolete and others will evolve, especially as they see market share and margins being affected. It is likely that some of them will choose to squeeze their suppliers further, demanding longer terms of payment

or going for lower qualities, without realizing that they are getting some short term gains but are also making a big bet against the better interests of the coffee industry and likely contributing to their own demise.

To be successful we believe that three basic pillars of differentiation will become more prominent in the 21st century: distinctive quality, transparency, and knowledge. Quality is, of course, a condition to differentiate and to compete, but it is not sufficient. Transparency will be a requirement of any credible supply chain. It will help validate important narratives that are truthful in sharing the realities that producers face. Lastly, knowledge needs to be part of any growing sector and this one invests little in coffee research and sustainability research. Some of that knowledge will be based on much-needed experimentation on qualities and characteristics at farm or regional level as well as the need to improve conditions and drive more effective investments. The most successful brands currently engage in this three-pronged approach.

**STiR:** *What's next?*

**Giovannucci:** We may be emerging from the “Indiana Jones model” wherein intrepid coffee buyers find high-quality jewels in remote or exotic countries. The next stage is that the hero is not only the buyer but also the farmer and the origin. Stories are important for this, especially as they serve to convey authenticity and even the conflicts and challenges of producing high-quality coffee in difficult environments. But they will also serve to kill the category if they are not supported by realistic knowledge from the same origins. As it is becoming more common to have much greater visibility into the farm and farmer levels, we also must be aware of the narratives that emerge to ensure that they are not just the product of a feverish marketing team. Ultimately, without sustainable conditions, none of these stories survive and the lifelong value of an origin is too important to be left to the vagaries of a corporate marketing team. Marketing is critical, of course, but not as it is increasingly being practiced with unprincipled exaggeration and even blatant lies that crassly appeal to emotions. The movement among visionary future-oriented organizations as diverse as McDonald's, the Swiss Government, and the Global Coffee Platform illustrate that credible and verifiable data may well be the underlying component of future growth that embodies principles of real sustainability where contributors can reap the benefits and pretenders are increasingly exposed.

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